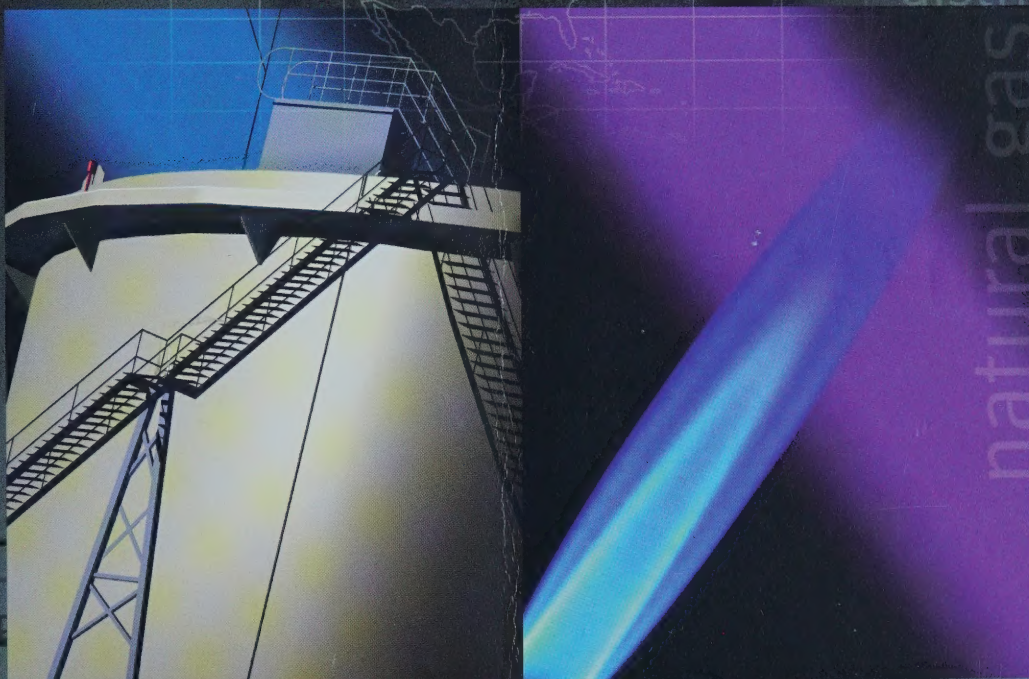


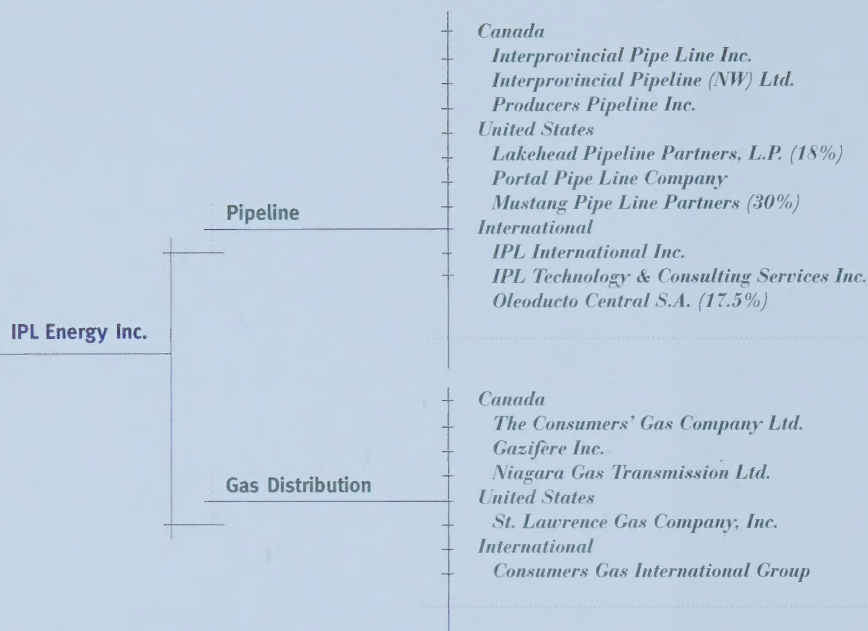
liquids
pipelining

distribution

natural gas



IPL Energy Inc. *annual report* 1996



IPL Energy Inc. is engaged in the transportation of liquid hydrocarbons and the distribution of natural gas. In Canada, the pipeline business is conducted through the wholly owned subsidiary, Interprovincial Pipe Line Inc. of Edmonton, Alberta. Wholly owned Lakehead Pipe Line Company, Inc. of Duluth, Minnesota, holds an 18% interest in the portion of the pipeline system located in the United States through its ownership in Lakehead Pipe Line Partners, L.P. Together these entities operate the world's longest crude oil and liquids pipeline system, extending across North America from western Canada to marketing and refining centres in the midwestern United States and eastern Canada. The natural gas distribution business is conducted through The Consumers' Gas Company Ltd. of Toronto, Ontario, which serves over 1.3 million residential, commercial and industrial customers in south central and eastern Ontario and upper New York State. Wholly owned IPL International Inc. takes the lead role in developing international business opportunities, with support provided by other corporate entities.

With assets of \$5.7 billion and over 5,000 employees, IPL Energy maintains its registered office in Calgary, Alberta. Its common shares are listed on the Toronto and Montreal stock exchanges in Canada under the symbol "IPL", and on the NASDAQ in the United States under "IPPIF".

Retain

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on the

Dividend
Reinvestment
and
Share
Purchase Plan

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if you are

a
Beneficial
Shareholder

1997 IPL Energy Inc.

Dividend Record Date

to receive a dividend shares must be recorded in the register of shareholders on

Dividend Payment Date

dividends are payable to shareholders, and Dividend Reinvestment and Share Purchase funds are invested by the Corporation, on

Share Purchase Cut-off Date

share purchase payments must be received by The R-M Trust Company by
cheques should be dated

1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Feb. 14	May 16	Aug. 22	Nov. 21
Mar. 1	June 1	Sept. 1	Dec. 1
Feb. 21	May 23	Aug. 29	Nov. 28
Mar. 1	June 1	Sept. 1	Dec. 1

Annual Meeting – Metropolitan Centre, Calgary, May 1, 1997

The declaration of dividends and the dates shown are subject to change at the discretion of the Board of Directors. The Corporation reserves the right to amend, suspend or terminate the Dividend Reinvestment and Share Purchase Plan. Shareholders will be notified in writing of any changes.

Please send me more information on

The IPL Energy Inc. Dividend Reinvestment and Share Purchase Plan

that enables me to reinvest my cash dividends in additional common shares at a discount to the market price, and to make optional cash payments to purchase additional shares at the market price. I understand that in either case the transactions are free of brokerage or other charges.

name	
address	
city	PROVINCE
POSTAL CODE	TELEPHONE

If you are a non-registered shareholder whose shares are held in the name of a broker or other financial intermediary, and you wish to receive interim financial statements on a regular basis, please sign and mail this card. Your name will be placed on a supplemental mailing list to receive these materials. If you are a registered shareholder; that is, your shares are registered in your name, there is no need to complete this card as these materials will be mailed to you automatically.

SIGNATURE	
name	
address	
city	PROVINCE
POSTAL CODE	TELEPHONE

IPL Energy Inc.

Dividend Cheques are normally mailed three to five days prior to the **payment or investment** dates.

Quarterly statements for Dividend Reinvestment and Share Purchase participants are normally mailed two weeks after the **payment or investment** dates.

Shareholder enquiries regarding the Dividend Reinvestment and Share Purchase Plan, change of address, share transfer, lost certificates, dividends and duplicate mailings should be directed, as appropriate, to the following:

Registrar and Transfer Agent in Canada

The R-M Trust Company
393 University Avenue
Fifth Floor
Toronto, Ontario, Canada
M5G 2M7
Telephone (416) 813-4600
Toll Free (800) 387-0825

Co-Registrar and Co-Transfer Agent in the United States

ChaseMellon
Shareholder Services
13th Floor
120 Broadway
New York, NY, 10271
USA
Toll Free (800) 526-0801

Shareholder inquiries regarding the Corporation's financial and operating performance, and its growth prospects, should be directed to:

Manager, Investor Relations
IPL Energy Inc.
2900, 421-7 Avenue S.W.
Calgary, Alberta, Canada
T2P 4K9
Telephone (403) 231-3906
Toll Free (800) 481-2804

IPL Enc



0271696899-T2P4K9-BR01

THE CORPORATE SECRETARY
IPL ENERGY INC
C/O THE R-M TRUST COMPANY
PO BOX 2517 STN M
CALGARY AB T2P 9Z9



0271696899-T2P4K9-BR01

THE CORPORATE SECRETARY
IPL ENERGY INC
C/O THE R-M TRUST COMPANY
PO BOX 2517 STN M
CALGARY AB T2P 9Z9

IPL Energy Inc. Highlights

(dollars in millions, except per share amounts)

	1996	1995	1994
Financial			
Earnings	\$ 180.3	\$ 130.4	\$ 43.6
Cash from operating activities	\$ 538.0	\$ 470.0	\$ 198.2
Dividends	\$ 125.9	\$ 116.3	\$ 80.2
Per share amounts			
Earnings	\$ 2.90	\$ 2.30	\$ 1.09
Cash from operating activities	\$ 8.65	\$ 8.28	\$ 4.94
Dividends	\$ 2.03	\$ 2.00	\$ 2.00
Return on average shareholders' equity	15.0%	13.2%	9.5%
Debt to debt plus equity at year end	68.4%	69.1%	85.9%

(dollars in millions)

Operating

Pipeline

Operating revenue.....	\$ 503.0	\$ 464.2	\$ 397.4
Capital expenditures	\$ 164.7	\$ 82.3	\$ 278.0
Deliveries (thousands of barrels per day)	1,868	1,731	1,532
Barrel miles (billions)	384	382	350
Average haul (miles)	563	605	625

Gas Distribution¹

Operating revenue.....	\$ 1,949.2	\$ 1,855.2	\$ 194.1
Capital expenditures	\$ 392.2	\$ 345.4	\$ 97.5
Distribution volume (billion cubic feet)	429	391	44
Number of active customers (thousands).....	1,307	1,264	1,219
Degree day deficiency ² (degrees Celsius)			
Actual	4,209	3,748	104
Forecast based on normal weather	4,058	3,955	118

¹ Highlights of the gas distribution business reflect the results of The Consumers' Gas Company Ltd. and other gas distribution assets on a quarter lag basis of consolidation subsequent to the date of acquisition (June 30, 1994).

² Degree day deficiency is a measure of coldness. It is calculated by accumulating for each day in the fiscal period the total number of degrees by which the daily mean temperature fell below 18 degrees Celsius. The figures given are those accumulated in the Toronto area.

Again in 1996, IPL Energy's financial and operating performance reflected the continuing strength of the liquids pipeline and gas distribution businesses in North America. Earnings advanced 38% to \$180 million from the \$130 million achieved in 1995. Excluding the one-time gain resulting from the sale of an interest in the United States portion of the pipeline business in 1991, the earnings were the highest ever achieved by IPL Energy. On a per share basis, earnings amounted to \$2.90 versus \$2.30 in 1995. Continued growth in the gas distribution business, combined with colder weather, as well as record pipeline deliveries, contributed to the improvement.

The progress achieved in 1996 was reflected in the total return from dividends and share price appreciation provided to shareholders. For the year ended December 31, 1996, the total return to an IPL Energy shareholder for an investment made at the end of 1995 was 32.6%. This compares with a return of 28.2% from a composite investment in the Canadian companies whose business activities and risk levels are most comparable to IPL Energy, and with a 28.3% return by The Toronto Stock Exchange 300 Composite Index. The significant growth in sustainable earnings achieved in the past three years also supported a 3% increase in the quarterly dividend to an annualized rate of \$2.06 per share.

Strategic Direction

IPL Energy's objective is to provide long term value to its shareholders through dividend growth and share price appreciation that is superior to comparable companies. In recent years, the company has successfully achieved that objective by introducing efficiency gains and expanding its core liquids transportation and gas distribution businesses. Significant further growth opportunity remains for energy delivery utilities in North America, and few are as well positioned to capitalize on these as is IPL Energy.

The energy business within North America is in the early stages of a period of dramatic change that presents new challenges, as well as risks, and further scope to excel. Emerging changes include incentive regulation, a trend towards integrated supply of natural gas and electricity, and increasing differentiation between energy delivery functions and energy supply services. The latter encompasses the acquisition of energy in various forms from primary suppliers, and the marketing of energy to end users along with complementary products and services. While the companies which excel at energy services need not necessarily be traditional energy delivery utilities, IPL Energy will be a proactive participant. It will enhance

its position as a leading energy delivery company by aggressively developing its existing energy services activities and by expanding into associated and complementary services opportunities to establish a leading position in the field of energy services.

The key to success in the emerging energy supply arena will be understanding and satisfying customer requirements, whether the customer is a large corporation shipping crude oil or natural gas on a trunk pipeline system, or a homeowner receiving natural gas or electricity through a local distribution network. In both cases, the customer will have more choices than in the past and IPL Energy intends to be the first choice.

IPL Energy is well positioned to lead in the provision of energy services to retail customers through its ownership of Consumers Gas. Consumers Gas has a history of identifying and providing quality service to its large and diverse customer network. In future, these customer relations skills will also be applied outside the confines of the regulated utility, with the flexibility to develop and offer a range of innovative and reliable energy choices to retail customers both within and outside the franchise area. The launch of retail energy services is underway. The retail side of energy services is developing into the most attractive segment of the energy services market.

IPL Energy will also be expanding the services it offers to customers of its pipeline system as it builds on its leading edge technology, including the provision of sophisticated real-time, map-based information services tracking the location and scheduled arrival dates of all hydrocarbon batches being transported on the IPL system and other participating gathering and trunk systems. In the near future, an electronic commodity trading exchange will be activated to permit shippers and other subscribers to buy or sell crude oil batches from each other. In addition to contributing to growth in earnings, these service offerings are expected to provide IPL Energy with a closer relationship with its pipeline customers and a better understanding of where and when additional pipeline infrastructure development is required, an example of synergy between IPL Energy's energy services and energy delivery businesses.

With the wide array of near to medium term opportunities for further investment in energy delivery systems and other complementary utility infrastructure projects, IPL Energy plans to commit more than \$1.2 billion in 1997.

The gas distribution division, Canada's largest, with franchise areas including greater Toronto, the Capital Region, the Niagara Region, and northern New York State is expected to add 47,000 new customers in 1997. Capital expenditures to meet the needs of these new customers, as well as for system improvements and upgrades, will approximate \$400 million with the regulated rate base growing by 9%.

Beyond natural gas distribution, significant growth potential exists within Ontario for the provision of operating services and investment in municipal water and electrical distribution systems. Success with these opportunities will arise with the development of private/public partnership models which permit cost savings to be realized from joint operation of contiguous gas/electric/water distribution systems, while providing assurance to municipalities that their ratepayers continue to receive appropriate quality,



B.F. MacNeill
President & Chief Executive Officer

reliability and pricing for all services. A pilot project in water supply is underway with the Municipal District of York through a joint venture with North West Water, a prominent private water utility based in the United Kingdom. Through a joint venture with TransAlta Corporation, Consumers Gas is working with the St. Catharines hydroelectric commission in Ontario to deliver electric load management and meter reading billing services.

The pipeline division is working at an historical peak in activity to meet customer needs. Crude oil production from the western Canadian basin continues to grow and the mix of production is shifting toward heavy crude which requires more pipeline capacity than light crude. The preferred market is the U.S. midwest which is experiencing increasing demand and declining indigenous supply. In early 1997, an expansion program was completed that increased capacity to Chicago by 120,000 barrels per day. A second expansion program to increase capacity by a further 170,000 barrels per day is targeted to be in service in the second half of 1998. It is anticipated that even further expansion will be required.

The growing crude oil volumes from Canada are also creating a need to extend the system to other refining centres in the U.S. midwest. IPL Energy's Mustang Pipeline joint venture with Mobil Oil, which was established last fall, provides significantly increased capacity and reduced cost to shippers wishing to access refineries with heavy oil processing capacity at Patoka and Wood River, south of Chicago. A similar extension project is under development to provide access for Canadian heavy oil to a British Petroleum refinery at Toledo, northeast of Chicago. There will also be a need for extensions to the upstream end of the system in Canada. Most immediate will be the requirement for pipeline capacity to accommodate increased heavy and synthetic oil production from the Athabasca area, the source of most of the anticipated future production growth. IPL Energy is developing a project to connect these future supplies with its main system at Hardisty, Alberta. In Eastern Canada, work is expected to start on the proposal to reverse the direction of the pipeline between Sarnia and Montreal, permitting refineries in Ontario to utilize imported crude oil.

Discussions have commenced with industry to examine ways of improving access for the transportation of natural gas liquids on the pipeline system. Options include new facilities that would provide significant investment opportunity for IPL Energy.

In total, pipeline division expenditures will approximate \$800 million, including \$500 million that will be invested by affiliated Lakehead Pipe Line Partners in the United States.

IPL Energy continues to work with its co-sponsors on the \$3.6 billion Alliance natural gas pipeline project designed to provide Western Canada producers with a low cost transportation alternative for

accessing eastern markets. In addition to the investment of development capital, both IPL Energy and Consumers Gas have made significant commitments to ship gas on the Alliance system.

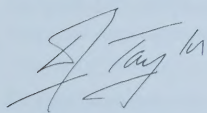
Notwithstanding the abundance of opportunities in North America, including the emerging energy services business, IPL Energy will continue to look to international opportunities for longer term growth. The investment in Ocesa, the large Colombia crude oil pipeline project, continues to grow towards a targeted level of \$150 million at completion in late 1997.

Summary

In summary, IPL Energy will be a North American leader in energy services and delivery, capitalizing on existing strengths and capabilities. Where appropriate, joint ventures will also be utilized to acquire necessary new skills and complementary assets. The new focus on energy services will help support higher long term growth in earnings and dividends. IPL Energy's target is to achieve double digit growth in earnings per share with a significant portion generated from energy services within the next five years. Longer term growth will be achieved without any sacrifice of dividends which are expected to maintain steady, modest growth in the near term.

The achievements of the company and the progress it continues to make are directly attributable to IPL Energy's skilled and dedicated workforce. The Board of Directors extends gratitude for the efforts of all employees.

On behalf of the Board of Directors:



D. J. Taylor
Chairman



B. F. MacNeill
President & Chief Executive Officer

February 19, 1997

Natural Gas Distribution

Financial and Operating Highlights ¹ (dollars in millions)

	1996	1995	1994
Operating revenue.....	\$ 1,949.2	\$ 1,855.2	\$ 1,997.7
Earnings	\$ 143.7	\$ 100.3	\$ 123.2
Assets.....	\$ 3,332.5	\$ 3,039.0	\$ 2,868.7
Active customers (thousands)	1,307	1,264	1,219
Distribution volume (billion cubic feet)	429	391	418
Degree day deficiency (degrees Celsius)	4,209	3,748	4,275

¹ Highlights reflect full year operations of the gas distribution business acquired June 30, 1994, and exclude the impact of the 15% minority interest and purchase price discrepancy.

IPL Energy's natural gas distribution business is conducted by The Consumers' Gas Company Ltd. of Toronto, Ontario. Consumers Gas is Canada's largest natural gas utility, serving over 1.3 million residential, commercial and industrial customers in central and eastern Ontario. Other gas distribution assets include two secondary utilities, Gazifère Inc. and St. Lawrence Gas Company, Inc. which serve customers in southwestern Quebec and upper New York State, respectively, as well as Niagara Gas Transmission Ltd., a related natural gas transmission company.

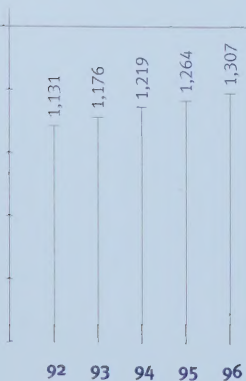
On December 9, 1996, IPL Energy acquired the remaining 15 % of the common shares of Consumers Gas not already owned. Elimination of the public float will increase the flexibility to pursue new opportunities in the evolving environment for regulated businesses.

The natural gas distribution business completed an exceptionally strong financial and operating year in 1996. Earnings of \$143.7 million (before minority interest and amortization of purchase price discrepancy) increased \$43.4 million over 1995 and were the highest ever achieved.

Weather was a significant contributing factor to the record earnings. Temperatures in the franchise area of Consumers Gas were approximately 4% below normal and 12% colder than in 1995, resulting in greater demand for natural gas. Natural gas distribution volumes for the year amounted to 429 billion cubic feet, or 38 billion cubic feet higher than the previous year. In 1996, more than 47,000 customers were added through aggressive canvassing primarily in the residential replacement market and expansion into 12 new communities. The growing popularity of natural gas is based largely on its superior value relative to other energy sources.

The environment in which Consumers Gas operates is changing rapidly. For example, the trend in North America to enhance the competitiveness of some regulated companies could lead to the separation of certain business activities which are not directly related to natural gas distribution. Additional opportunities are also arising as energy forms "converge", particularly natural gas and electricity, and as public sector utilities look to the private sector for expertise.

Gas Distribution
Number of Active Customers
Year End (thousands)



In response to the changing business environment, Consumers Gas implemented a new corporate structure in January 1997. The transition to four main business units for the natural gas distribution business – Energy Services, Retail Services, Business Support and Distribution Operations – is designed to clarify roles and responsibilities, and decision-making authority. The new structure will also enhance executive accountability for financial performance, customer and employee satisfaction, and the sharing of best practices.

Improving operating efficiencies and customer service continue to be a major focus of Consumers Gas. Changing market conditions and increased customer expectations for better quality and value are challenges requiring continuous improvement in the level of service. This includes careful management of operating costs and introducing enhanced methods of serving customers.

To maintain competitiveness, a number of activities were undertaken to enhance operating efficiency. In 1996, credit and collection functions were consolidated to improve customer service, while realizing considerable cost savings. Also completed was the consolidation of call centres from six to three. The new telephone network offers a larger pool of operators to respond quickly to consumer calls wherever they originate, and is expected to realize substantial cost savings as well. Significant improvements were also made to the turnaround time on new service installation.

IPL Energy and a United Kingdom-based water distribution company each hold a 50% interest in Consumers Utilities Ltd., an affiliate through which water projects are being pursued. Two projects in Ontario are in the early stages of definition. Consumer Utilities was selected by the York Region to develop a preferred technical solution for its long term water supply needs, and has also been invited to submit a proposal related to similar needs of the Halton Region.

Crude Oil and Liquids Pipeline

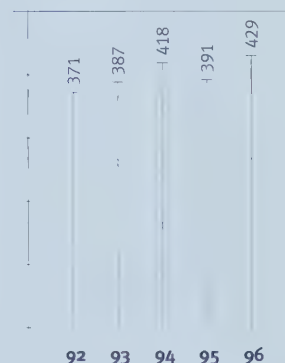
Financial and Operating Highlights (dollars in millions)

	1996	1995	1994
Operating revenue	\$ 503.0	\$ 464.2	\$ 397.4
Earnings	\$ 92.6	\$ 80.2	\$ 74.1
Assets	\$ 1,676.2	\$ 1,566.5	\$ 1,568.7
Deliveries (thousands of barrels per day)	1,868	1,731	1,532

IPL Energy's main pipeline business in Canada is conducted through wholly owned Interprovincial Pipe Line Inc. of Edmonton, Alberta. In the United States, another wholly owned subsidiary, Lakehead Pipe Line Company, Inc. of Duluth, Minnesota, holds an 18% interest in Lakehead Pipe Line Partners, L.P. and acts as the general partner. Together these entities operate the world's longest crude oil and liquids pipeline system, extending across North America from western Canadian oilfields to marketing and refining centres in the midwestern United States and eastern Canada. Pipeline operations also include the Interprovincial Pipe Line (NW) Ltd. system which originates in the Northwest Territories and extends to



Gas Distribution
Volume of Gas Distributed
(billion cubic feet)



Zama, Alberta, two feeder pipelines, Producers Pipelines Inc. and Portal Pipe Line Company which serve Canadian prairie provinces and northern U.S. producers, and a 30% interest in Mustang Pipe Line Partners which serves the Patoka/Wood River market in Illinois.

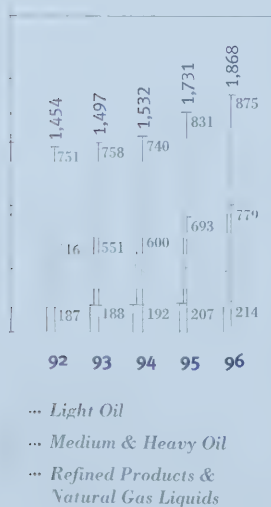
In 1996, the pipeline business achieved earnings of \$92.6 million, an increase of \$12.4 million over 1995. The improvement was due to several factors including cost savings, combined with the continuing benefit of the incentive tolling agreement on the Canadian portion of the mainline system entered into in 1995, as well as to full year contributions from feeder pipelines acquired last year. The 1996 results also reflect higher pipeline deliveries which reached a record level for the fifth consecutive year.

The North American liquids transportation business presents a variety of investment opportunities for pipelines and storage capacity that the company continues to pursue actively.

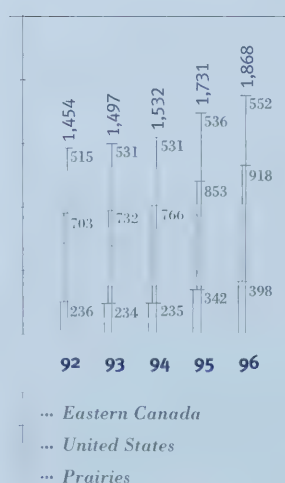
In 1996, the main pipeline system was expanded by 120,000 barrels per day. The expansion involved the construction of additional tankage and the installation of pumping capacity. The approximate \$170 million cost was split equally between Canada and the United States. The expansion was complemented by linking the Producers and Portal pipelines at the Canada/U.S. border, thereby effectively increasing the capacity of the mainline system in a cost effective manner.



Pipeline
Deliveries by Type
(thousands of barrels per day)



Pipeline
Deliveries by Destination
(thousands of barrels per day)



Work commenced on a further \$540 million expansion that would increase capacity by 120,000 barrels per day out of Western Canada, and by 170,000 barrels per day in the United States from Superior, Wisconsin to important Chicago, Illinois area markets. Approximately \$140 million will be spent in Canada. Included in the program, expected to be completed in late 1998, is the construction of a new pipeline between Edmonton and Hardisty in Alberta and from Superior to Chicago.

The 30% interest in Mustang Pipe Line Partners was acquired in 1996 for \$24 million. The acquisition, along with joint tariff agreements, enable Western Canadian shippers to transport oil from Chicago to new markets in Patoka and Wood River. In addition, a proposal to connect the mainline system at Stockbridge, Michigan, with a refinery at Toledo, Ohio, will provide an additional market for Western Canadian production if completed.

An application will be submitted to the National Energy Board to reverse the company's Sarnia to Montreal crude oil pipeline to permit the line to carry imported oil to refining centres in Ontario. A decision from the NEB is awaited on a request to reactivate an idle crude line between Sarnia and Toronto, and to place it in refined product service.

In 1996, Lakehead Pipe Line reached an agreement with the Canadian Association of Petroleum Producers and the Alberta Department of Energy, the primary intervenors in the Partnership's tariff rate cases dating back to 1992. The agreement benefits both Lakehead and shippers by restoring stability and providing predictable tariffs for the next five years.

A proposal is being developed to connect future supplies of heavy and synthetic oil from the Athabasca area of Alberta with the mainline system at Hardisty. In addition, IPL Energy continues to work with its co-sponsors in the Alliance Pipeline project. The proposed \$3.6 billion natural gas pipeline project, in which a 10% equity interest is held, will extend from Fort St. John, British Columbia, to Chicago.

International

Financial Highlights *(dollars in millions)*

	1996	1995	1994
Earnings	\$ 4.8	\$ 1.6	\$ —
Assets	\$ 109.4	\$ 44.5	\$ 20.0

IPL Energy's international activities are investigated and developed by IPL International Inc., established in 1994. Activities are supported by other units within the IPL Energy group of companies, including IPL Technology & Consulting Services Inc. (IPLT), and Consumers Gas International Group, which are engaged in pipeline and natural gas distribution consulting services, respectively.

IPL International's objective is to supplement North American growth opportunities by securing participation in attractive foreign projects that utilize technical and operating expertise in both liquids transportation and natural gas distribution. A prime example of an international project meeting the company's investment criteria is the Cusiana crude oil pipeline project in Colombia, the company's first international venture which was entered into in 1994. IPL Energy holds a 17.5% long term investment and acts as the joint operator of the U.S. \$2 billion project.

By the end of 1996, the company's investment in the Colombia project amounted to over \$100 million and contributed \$8.9 million to earnings. Another \$30 million is expected to be invested in 1997. Additional opportunities are being pursued cautiously and prudently with the primary focus in Latin America and the Asia/Pacific regions. In 1996, a development office was established in Caracas, Venezuela.

IPLT offers a broad spectrum of proprietary pipeline operation technologies including customized pipeline operator training, Supervisory Control and Data Acquisition (SCADA) computer systems, and technical support services. IPLT has secured operations training contracts in Malaysia, Brazil, South Korea and Mexico. The Colombia pipeline project is utilizing IPLT's SCADA services.

Consumers Gas International Group provides a wide range of consulting services to the domestic and international gas industry. During the last 30 years, the company has completed over 500 consulting projects in 29 countries on six continents. Clients include transmission companies, gas distributors, governments and engineering firms.

Overview

The improving trend in IPL Energy Inc.'s financial results over its last three fiscal years reflects the Corporation's continuing ability to capitalize on growth opportunities in its primary operating segments.

Financial Highlights

(dollars in millions, except per share amounts)

	1996	1995	1994
Segmented earnings			
Pipeline	92.6	80.2	74.1
Gas distribution	111.8	75.5	(17.7)
International.....	4.8	1.6	—
Corporate	(28.9)	(26.9)	(12.8)
	180.3	130.4	43.6
Cash from operating activities	538.0	470.0	198.2
Dividends	125.9	116.3	80.2
Per share amounts			
Earnings.....	2.90	2.30	1.09
Dividends	2.03	2.00	2.00

Earnings for the year ended December 31, 1996, represented an increase of 38% over the previous year. In addition to base earnings growth for both the pipeline and gas distribution businesses, the improvement also included the effect of colder weather in the franchise area of the gas distribution subsidiary, The Consumers' Gas Company Ltd., when compared with 1995.

The 1994 earnings were affected by the timing of the acquisition of Consumers Gas. Because the results of the gas distribution segment are consolidated on a quarter lag basis, the 1994 full year earnings only included the September quarter for this segment, which is traditionally a loss quarter due to the seasonal demand for natural gas.

Since 1994, cash from operating activities has also increased annually, reflecting the trend in earnings as well as fluctuations in working capital.

Over the three year period, dividends paid consisted of a regular quarterly dividend on an increasing number of common shares outstanding. In the third quarter of 1996, the quarterly dividend was increased by 3% to \$0.515 per share in recognition of the significant growth in sustainable earnings.

As IPL Energy evaluates its results of operations by primary business activity, the following provides a detailed discussion of the results of operations for each segment, including analysis of significant revenue and expense items as presented in Note 3 to the Consolidated Financial Statements. The remainder of the discussion addresses the Corporation's liquidity and capital resources as well as its future prospects.

Pipeline

The results of the pipeline segment include contributions from three primary systems: the Canadian portion of the main crude oil pipeline (IPL System), the 18% owned portion located in the United States (Lakehead System) accounted for on an equity basis, and a wholly owned pipeline originating in the Northwest Territories (IPL (NW) System). Since 1995, the segment also reflects the results of two feeder pipelines.

Pipeline Segments

(dollars in millions)

	1996	1995	1994
IPL System.....	59.6	55.5	47.5
Lakehead System.....	11.6	7.2	12.6
IPL (NW) System.....	13.2	13.6	14.0
Other	8.2	3.9	—
	92.6	80.2	74.1

The 1996 earnings of the IPL System continued to benefit from advances achieved under the incentive tolling agreement entered into with shippers a year earlier. Under incentive tolling, the ability to achieve higher earnings is based on maximizing system utilization and increasing operating efficiency, representing a departure from traditional cost based regulation whereby earnings are based on the level of capital investment. In 1996, the IPL System realized the continuing benefit of cost savings achieved in 1995 and also experienced a marginal increase in system utilization. Under the terms of the agreement, earnings in excess of pre-determined thresholds are shared between the Corporation and its customers. In 1996, the IPL System exceeded the threshold earnings level by \$8.1 million, providing a net benefit of \$4.7 million to the Corporation and \$3.4 million to industry.

In 1995, IPL System earnings reflected a \$220 million capacity expansion in Canada placed in service late in 1994. The expansion contributed to a significant increase in system deliveries over the previous year. This factor combined with cost savings, mainly in the area of power costs, resulted in a net improvement in earnings of \$3.7 million under incentive tolling, with shippers benefiting by \$2.5 million.

For the second consecutive year, results of the Lakehead System were impacted by a U.S. Federal Energy Regulatory Commission (FERC) ruling regarding tariffs filed since 1992. The cumulative negative effect of this ruling on 1996 earnings of approximately \$7 million, which was similar to the amount recorded in 1995, was partially offset by lower operating and administrative costs on the U.S. system. Both the 1996 and 1995 results of this system incorporate increased system utilization resulting from the U.S. portion of the 1994 capacity expansion program.

Prior to 1996, the IPL (NW) System was regulated on a full cost of service basis. In 1996, an amending agreement was negotiated with this system's primary shipper whereby earnings, effective July 1, 1996, are based on a deemed capital structure of 55% equity. The amending agreement, which extends the depreciable life of the system by 10 years, remains subject to formal approvals.

Earnings from other pipelines in 1996 included full year contributions from Producers Pipelines Inc. of Saskatchewan and Portal Pipe Line Company of North Dakota, acquired March 10 and November 14, 1995, respectively. These subsidiaries operate feeder pipelines that connect with the main pipeline system.

The following discussion focuses on the significant variances affecting income statement line items of the pipeline segment.

Pipeline Earnings

(dollars in millions)

	1996	1995	1994
Operating revenue	503.0	464.2	397.4
Operating and administrative expenses	(215.2)	(193.5)	(200.9)
Depreciation	(88.3)	(88.9)	(70.8)
Investment and other income	25.6	20.4	33.7
Interest expense	(70.2)	(73.3)	(55.8)
Income taxes.....	(62.3)	(48.7)	(29.5)
	92.6	80.2	74.1

Operating revenue generated by the pipeline segment increased significantly over the three year period due to capacity expansions and minor acquisitions. Revenues increased by \$39 million in 1996, due primarily to a full year contribution from the Producers and Portal pipelines (1996 – \$56 million; 1995 – \$32 million). Higher IPL System revenues included the recovery of certain operating costs, primarily line integrity program costs, as well as income tax variances allowed under the terms of the incentive tolling agreement. These increases more than offset a \$10 million reduction in IPL (NW) System revenue, reflecting lower depreciation and interest expense in accordance with the amending agreement. The 1995 revenue increase over the prior year was due primarily to the benefit of higher volumes on the IPL System arising from the 1994 capacity expansion, and to the inclusion of feeder pipelines.

Operating and administrative expenses in 1996 increased approximately \$22 million over the prior year. Of this amount \$8 million was attributable to Producers and Portal. The remaining variance was caused primarily by expenses incurred for line integrity programs and to minor increases over several cost categories. In 1995, operational efficiencies resulting from the 1994 expansion program and renegotiated power contracts led to a \$5 million decrease in power costs. The reduction was achieved despite an overall increase in system utilization. Further cost savings initiatives in several categories more than offset the inclusion of \$12 million of expenses from feeder pipelines acquired in 1995.

Over the three year period, depreciation expense has grown in conjunction with property plant and equipment additions resulting from capacity expansion and pipeline acquisitions. In 1996, this effect was essentially offset by a reduction in IPL (NW) System depreciation as a result of the amending agreement.

The primary components of investment and other income of the pipeline segment are pretax equity earnings from the Lakehead System and the allowance for equity funds used during construction (AEDC). In both 1996 and 1995, the benefit to Lakehead System earnings from higher system utilization resulting from the capacity expansion program was more than offset by the FERC decisions. In 1996, operating cost reductions also mitigated the negative effect of the FERC decision. In 1994, AEDC was significantly higher than historical levels as a result of the expansion program (1996 – \$2.3 million; 1995 – \$1.0 million; 1994 – \$6.4 million).

Interest expense for the pipeline division has also been affected by the growth since 1994. In 1996, interest expense declined from the previous year due primarily to reductions in debt levels financing the IPL (NW) System.

Gas Distribution

IPL Energy's gas distribution segment includes contributions from an 85% interest in Consumers Gas, and less significant related utilities, acquired June 30, 1994. Consumers Gas is a regulated natural gas distribution utility serving approximately 1.3 million customers in central and eastern Ontario.

In 1996, subsequent to the receipt of government approval, Consumers Gas and IPL Energy entered into an arrangement agreement under which the minority shareholders of Consumers Gas were offered either \$24.00 in cash, or \$1.50 in cash plus a fraction of an IPL Energy common share valued at \$22.50, for each of their common shares. On December 9, 1996, the transaction to acquire the remaining 15% of the common shares was completed and Consumers Gas became a wholly owned subsidiary.

For its 1996 fiscal year, Consumers Gas' allowed rate of return was 11.875% on a 35% deemed common equity component and a rate base of \$2,602 million. Earnings were positively affected by colder than normal weather and by the continued popularity of natural gas among homeowners and builders due to its price advantage over other forms of energy and its environmental benefits. When measured in degree days for the franchise area, the weather was 4% colder than normal and 12% colder than in 1995. In addition to higher distribution volumes due to colder weather, the continued growth in customer base contributed to the increase in earnings from 1995. The customer base growth has averaged roughly 45,000 annually since acquisition.

In 1995, Consumers Gas was allowed an 11.65% rate of return on a 35% deemed common equity component and a rate base of \$2,430 million. Earnings in that year were negatively affected by 5% warmer than normal weather and 12% warmer than 1994. However, the impact of weather was offset by positive operational factors including a continuing growth in customer base. The 1994 earnings represent the post acquisition earnings from gas operations which, due to seasonality, was a loss quarter.

The following provides a discussion of the significant variances affecting income statement line items of the gas distribution segment.

Gas Distribution Earnings

(dollars in millions)

	1996	1995	1994 ¹
Gas sales	1,749.8	1,694.5	1,851.3
Gas costs	(1,064.3)	(1,123.0)	(1,255.2)
Gas sales margin	685.5	571.5	596.1
Other revenue	199.4	160.7	146.4
Operating and administrative expenses	(345.5)	(317.4)	(305.6)
Depreciation	(146.6)	(131.4)	(116.6)
Investment and other income	4.4	2.4	2.3
Interest expense	(158.7)	(149.8)	(135.3)
Income taxes	(104.6)	(45.5)	(74.2)
Minority interest	(22.1)	(15.0)	(18.2)
	111.8	75.5	94.9

¹ To provide for a consistent basis of comparison, the 1994 figures assume 85% ownership of Consumers Gas and amortization of the excess of the purchase price over the net book value of assets acquired for the full fiscal year.

Over the three years, gas sales reflected the continued growth in customer base as well as the effect of weather. As a result of these factors, distribution volumes for the three years amounted to 429 billion cubic feet in 1996, 391 billion in 1995, and 418 billion in 1994. Gas sales revenue in 1996 was affected by lower gas costs which, despite higher distribution volumes, were noticeably lower than the previous two years due to a lower cost per unit. Gas costs are passed on directly to customers with no mark-up.

Other revenue has also increased over the three year period due to higher revenue from rental appliances. In 1996, higher rental rates, introduced to recover an increase in taxes payable resulting from a change in assessment practices, contributed to the increase.

Operating and administrative expenses increased in each year, largely as a result of higher costs associated with serving an expanding customer base. In addition, the increase in 1996 over the previous year is due in part to the growth of ancillary operations particularly rental of water heaters. The 1995 amount also included additional costs related to the implementation of demand side management program initiatives and thus was higher in comparison with 1994.

The corresponding growth in property plant and equipment over the three years is the primary reason for increasing depreciation and interest expense.

Income taxes, which are calculated using the taxes payable method, fluctuated over the three years due to changes in pretax earnings. In 1996, the change in assessing practice with respect to the deductibility of rental equipment installation costs in the year incurred resulted in higher current income taxes compared with the previous two years. These costs are now capitalized as part of the cost of the rental equipment and capital cost allowance deducted as prescribed.

International

The international business segment includes earnings from IPL Energy's investment in a pipeline project in Colombia. IPL Energy is providing long term funding for the project and is earning a pre-established fixed rate of return on its investment. Under separate agreements, the Corporation acts as joint operator and earns operating fees. Results of international consulting and business development activities are also reflected in this segment.

Segment results improved over 1995 primarily due to a higher investment level in the Colombia project, as well as to the receipt of operating fees which commenced in 1996.

Corporate

The corporate segment includes other investing and financing activities such as general corporate investments and costs associated with non regulated debt.

Corporate

(dollars in millions)

	1996	1995	1994
Interest expense	(42.4)	(58.7)	(60.8)
Investment and other income (loss)	(4.1)	14.0	35.4
Other	(8.4)	0.1	(1.3)
Income taxes recovered	26.0	17.7	13.9
	(28.9)	(26.9)	(12.8)

Interest expense of the Corporate segment includes primarily amounts related to debt incurred for the acquisition of Consumers Gas and other minor subsidiaries. In 1996, lower interest rates on the variable rate component of corporate debt, which averaged approximately \$300 million over the two year period, was the primary cause of the decline from the previous year. The 1995 amount also reflected interest on the \$500 million Convertible Debentures prior to conversion to equity on March 1 of that year and \$2.3 million of interest on Series J Debentures which were retired on February 28, 1995. Interest expense in 1994 comprised a full year interest on Series J of \$13.8 million and financing related to the acquisition of Consumers Gas for half the year.

Over the three year period, corporate investment and other income declined substantially due to the absence of a \$12.4 million gain (\$7.6 million after tax) on dilution of the interest in the Lakehead System recorded in 1994 and lower income from short term investments attributable to the significant decrease in cash balances subsequent to the acquisition of Consumers Gas. As well, this income in 1994 and 1995 included the recovery of interest expense on the Series J Debentures from a former subsidiary (1994 – \$13.8 million; 1995 – \$2.3 million). The 1996 amount was further reduced by provisions made for potential claims arising in the normal course of business.

Other corporate expenses in 1996 encompass an increase in business development activity levels in North America. The effective income tax rate fluctuates substantially from year to year due to the nature of the items included in this segment.

Liquidity and Capital Resources

The Corporation's cash generated from operations, supplemented by \$1.6 billion in unutilized credit facilities, provide adequate resources to finance growth opportunities, debt repayments, and dividend distributions. *(For a further description of the Corporation's committed and uncommitted credit facilities, reference should be made to Note 9 to the Consolidated Financial Statements.)*

Operating Activities Subsequent to 1994, cash from operating activities has grown significantly due primarily to full year contributions from gas distribution operations. In 1996, cash from operating activities increased over the prior year, reflecting the effect of higher earnings, offset partially by higher working capital requirements. Due to the seasonality of gas distribution operations and the fluctuating levels of gas in storage, cash provided from operating activities remains sensitive to changes in working capital.

Investing Activities On December 9, 1996, IPL Energy completed a transaction to acquire the remaining 15% of the common shares of Consumers Gas. The approximate \$250 million purchase price was financed in part by the exchange of common shares of the Corporation having a fair value of \$105 million, with the remainder financed by variable rate borrowings. Other long term investments made in 1996 include contributions to the Colombia pipeline project of U.S.\$47 million, and an investment in a U.S. pipeline venture which improves the pipeline system's access to refinery capacity in the Patoka, Illinois, area.

Significant investments made in 1995 included \$85 million for the acquisitions of feeder pipeline subsidiaries as well as contributions toward the Colombia pipeline project. In 1994, the Corporation completed its \$1.2 billion acquisition of Consumers Gas and made its initial U.S.\$15 million investment in Colombia.

Capital expenditures over the three year period included additions to gas distribution assets required to serve customer growth as well as improvements and replacements of existing facilities (1996 – \$393 million; 1995 – \$345 million; 1994 – \$98 million). Remaining capital additions consisted primarily of the ongoing maintenance program of the pipeline division as well as capacity expansion expenditures in Canada which totaled \$220 million in 1994, and \$66 million in 1996.

Financing Activities Over the three year period, the Corporation's level of financing activities has increased in conjunction with its growth.

The Corporation's regulated pipeline and gas distribution operations issue long term debt, usually in the form of fixed rate debentures or medium term notes, primarily to finance capital additions. Non regulated corporate debt has been incurred primarily to finance business acquisitions and investments in subsidiaries. Funds for debt retirements are generated through cash from operating activities and the issue of share capital, as well as through the issue of replacement debt.

In 1996, IPL Energy's operating segments issued \$270 million under medium term note programs to finance capital expenditures, and to meet maturing obligations of \$95 million primarily in the gas distribution segment. In accordance with the amending agreement, the Corporation also retired \$70 million of fixed rate debt of the IPL (NW) System. The \$152 million increase in variable rate financing primarily represented proceeds from the issue of commercial paper to finance the acquisition of the minority interest in Consumers Gas.

Financing activities in 1995 included the receipt of proceeds on conversion of Convertible Debentures and the issuance of \$614 million in long term fixed rate instruments. The gas distribution segment issued \$117 million of long term debt, comprising \$85 million of debentures as well as commercial paper which was effectively converted into long term debt through the use of interest rate swaps. Pipeline operations issued \$185 million under its medium term note program primarily to retire commercial borrowings incurred in 1994 in conjunction with its capacity expansion program. At the Corporate level, the issuance of long term financing instruments generated proceeds of \$312 million which were used to replace variable rate financing related to 1994 and 1995 acquisitions. In addition to fixed rate debentures of \$50 million and medium term notes of \$75 million, the Corporation issued U.S.\$130 million of debentures which were effectively converted to a Canadian \$178 million obligation through the use of financial instruments.

In 1994, the Corporation raised almost \$1 billion through variable rate financing, including roughly \$850 million for the acquisition of Consumers Gas.

The number of outstanding common shares has grown from 40 million in 1994 to approximately 67 million at the end of 1996. In addition to shares issued on conversion of the Convertible Debentures (15.3 million) and the acquisition of the 15% minority interest in Consumers Gas (2.6 million), the Corporation has raised over \$300 million of share capital during the three year period. These issues include a \$111 million public offering of 3.0 million shares in October 1996, a \$125 million public offering of 4.2 million shares in 1995, with the remainder represented primarily by contributions under the Dividend Reinvestment and Share Purchase Plan.

Dividends paid over the past three years have consisted of a regular quarterly dividend on the increasing number of common shares. In August 1996, the quarterly dividend was increased to \$0.515 per quarter from \$0.50. Despite the increase, the dividend payout ratio fell significantly from the previous two years to 70%.

Financial Instruments The Corporation uses a variety of off balance sheet financial instruments to hedge specific exposures which could influence its financial results. All such instruments are arranged only with high credit rated institutions, and are not used for speculative purposes. *(A further description of the hedging instruments used by the Corporation is provided in Note 12 to the Consolidated Financial Statements.)*

Future Prospects

IPL Energy anticipates continued earnings growth from its core operating segments in 1997 and beyond. Stable increases in rate base and customer growth for the gas distribution business, combined with the benefit of capacity expansions for the pipeline division, are expected to continue their positive contribution.

The following discussion and analysis addresses the prospects for the Corporation's current business activities. IPL Energy's overall earnings in the future will also be sensitive to costs incurred to develop new business opportunities, and any contributions therefrom. This sensitivity encompasses costs associated with the Corporation's strategic intent to expand into emerging energy services, which are excluded from the following analysis.

When used in this section, the words "anticipate", "expect", "project" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, weather, economic conditions, etc. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected.

Pipeline The Corporation completed a 120,000 barrels per day expansion of the main Canadian/U.S. pipeline system late in 1996, complemented by the construction of a link between the Producers and Portal systems in order to increase overall capacity of the main crude oil line. Approval has also been received for the Canadian portion of a further 120,000 barrels per day expansion to be completed by the end of 1998. These expansion programs contribute to IPL System earnings based on a deemed equity ratio at the National Energy Board's prescribed multi-pipeline rate of return.

In 1997, IPL System earnings are expected to continue an increasing trend as they will reflect the full year benefit of the \$85 million 1996 capacity expansion. In addition, the results will reflect AEDC related to the 1997 program, which is projected to be marginally higher than the \$2 million recorded in 1996. Under the incentive tolling agreement, IPL System earnings will remain sensitive to maximizing system utilization, although protected from a shortfall in volumes below annual capacity, and continuing operating cost efficiencies. Based on the provisions in the agreement, results of this system are not sensitive to fluctuations in income tax expense.

Earnings from the 18% owned Lakehead System are expected to increase from the 1996 level as they will exclude the approximate \$3 million effect which related to prior years' toll adjustments. Future contributions from this system are expected to stabilize beyond 1997 due to an agreement reached between the Partnership and customer representatives on all outstanding contested tariff rates. Contributions from the Lakehead System are not materially sensitive to fluctuations in system utilization or foreign exchange rates due to the level of ownership.

The amending agreement related to the IPL (NW) System remains subject to formal regulatory approvals. Assuming no significant changes, this system is expected to earn the multi-pipeline rate of return on a 55% deemed equity component and a rate base of approximately \$200 million. The effect of the amending agreement is not anticipated to significantly impact this system's historical earnings levels.

Earnings from other pipelines are expected to increase marginally in 1997, due primarily to higher throughput capacity.

Gas Distribution The Corporation's future earnings will benefit from 100% ownership in Consumers Gas and expected increases in the demand for natural gas.

For Consumers Gas' 1997 fiscal year, the Ontario Energy Board has approved a rate of return of 11.5% on a 35% deemed equity component and a rate base of \$2,831 million, representing a 9% growth rate from the 1996 approved rate base. For 1997, contributions from the gas distribution segment should be comparable to the 1996 level as the benefit of full ownership, continuing customer additions and rate base growth should offset an assumed return to normal weather in the franchise area.

Earnings from the gas distribution segment are primarily sensitive to the ability to realize the revenue level required to generate the allowed rate of return on common equity. This factor is dependent upon accuracy in forecasting operating and capital costs, and, most importantly, achieving the forecasted natural gas distribution volume. Weather during the year has a significant effect on sales to the higher margin residential and commercial markets, which account for approximately two-thirds of total distribution volume, as the majority of gas distributed to these markets is ultimately used for space heating.

Sales to large volume commercial, industrial and transportation customers are more susceptible to prevailing economic conditions, including the pricing of competitive energy sources for customers with the ability to switch to alternate fuels. Customer additions are important to all market sectors as expansion adds to the overall consumption of natural gas.

International Contributions from the international segment reflect the fixed rate of return on the investment in the Colombia project. This segment also includes revenue and expenses associated with international business development and consulting activities, which are not anticipated to increase materially in 1997. Consequently, the 1997 results of the international segment are anticipated to improve primarily due to a higher investment in the Colombia project, which is expected to reflect an additional investment of \$30 million projected for the upcoming year.

Corporate The corporate segment reflects other investing and financing activities undertaken by IPL Energy and costs associated with non regulated debt and business development activities in North America. Results of the corporate segment are primarily sensitive to the level of debt balances and to interest rate fluctuations on the variable rate component, as well as costs associated with the development of new business activities.

In 1997, net costs of the corporate segment (excluding fluctuations in business development expenses) are expected to remain similar to 1996 as the full year effect of debt incurred for the acquisition of the remaining common shares of Consumers Gas will be offset by the absence of 1996 provisions arising in the normal course of business. Based on the variable rate debt levels at December 31, 1996, a 1% fluctuation in interest rates will affect this segment's results by approximately \$3 million.

management's Report

To the Shareholders of IPL Energy Inc.

Management is responsible for the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgement and best estimates. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control system includes an internal audit function and an established code of business conduct.

The Board of Directors and its committees are responsible for all aspects related to governance of the Corporation. The Audit, Finance & Risk Committee of the Board, composed of directors who are not officers or employees of the Corporation, has a specific responsibility for ensuring that management fulfills its responsibilities for financial reporting and internal controls related thereto. The Committee meets with management, internal auditors and independent auditors to review the consolidated financial statements and the internal controls as they relate to financial reporting. The Audit, Finance & Risk Committee reports its findings to the Board for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Corporation's independent auditors, conducts an examination of the consolidated financial statements in accordance with generally accepted auditing standards.



B.F. MacNeill

President & Chief Executive Officer

January 24, 1997



D.P. Truswell

Senior Vice President & Chief Financial Officer

auditors' Report

To the Shareholders of IPL Energy Inc.

We have audited the consolidated statements of financial position of IPL Energy Inc. as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1996 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta, Canada

January 24, 1997

consolidated statement of Earnings

(dollars in millions, except per share amounts)

Year ended December 31,

	1996	1995	1994
Operating Revenue			
Gas sales.....	1,749.8	1,694.4	172.2
Transportation	516.1	477.9	398.1
Other	192.0	150.5	21.2
	2,457.9	2,322.8	591.5
Expenses			
Gas costs.....	1,064.3	1,123.0	105.3
Operating and administrative.....	576.3	515.8	267.4
Depreciation	237.0	221.5	102.0
	1,877.6	1,860.3	474.7
Operating Income.....	580.3	462.5	116.8
Investment and Other Income (Note 4).....	31.7	39.1	72.1
Interest Expense (Note 5)	(271.3)	(281.8)	(151.4)
Earnings Before Undernoted	340.7	219.8	37.5
Income Taxes (Note 6)	(138.3)	(74.4)	3.6
	202.4	145.4	41.1
Minority Interest (Note 2).....	(22.1)	(15.0)	2.5
Earnings	180.3	130.4	43.6
Earnings Per Share (Note 10).....	2.90	2.30	1.09

consolidated statement of Retained Earnings

(dollars in millions, except per share amounts)

Year ended December 31,

	1996	1995	1994
Retained Earnings at Beginning of Year	212.1	198.0	234.6
Earnings	180.3	130.4	43.6
Dividends	(125.9)	(116.3)	(80.2)
Retained Earnings at End of Year	266.5	212.1	198.0
Dividends Per Share.....	2.03	2.00	2.00

The accompanying notes to the consolidated financial statements are an integral part of these statements.

consolidated statement of Cash Flows

(dollars in millions)

Year ended December 31.

	1996	1995	1994
Cash Provided from Operating Activities			
Earnings	180.3	130.4	43.6
Charges (credits) not affecting cash:			
Depreciation	237.0	221.5	102.0
Deferred income taxes.....	12.6	(14.9)	(7.9)
Minority interest.....	22.1	15.0	(2.5)
Other	12.8	13.1	(10.7)
Changes in working capital:			
Accounts receivable and other	(82.2)	(9.6)	(199.7)
Gas in storage.....	13.9	58.6	(351.6)
Short term borrowings	45.4	50.7	350.7
Accounts payable and other	92.0	(2.8)	264.9
Interest payable	4.1	7.3	46.3
Working capital from acquisitions.....	—	0.7	(36.9)
	538.0	470.0	198.2
Investing Activities			
Short term investments, net	—	36.4	13.2
Acquisition of Consumers Gas (Note 2).....	(143.5)	—	(1,203.8)
Long term investments and acquisition of minor subsidiaries	(90.2)	(104.3)	(33.7)
Additions to property, plant and equipment.....	(560.5)	(428.7)	(376.6)
Other	(28.2)	(13.6)	(2.8)
	(822.4)	(510.2)	(1,603.7)
Financing Activities			
Convertible Debentures	—	307.6	171.8
Variable rate financing, net.....	152.0	(804.0)	1,044.3
Fixed rate financing, net	107.4	527.9	46.5
Minority interest.....	(8.6)	(8.0)	(0.8)
Capital stock.....	141.5	152.4	11.0
Dividends	(125.9)	(116.3)	(80.2)
	266.4	59.6	1,192.6
Increase (Decrease) in Cash.....	(18.0)	19.4	(212.9)
Cash at Beginning of Year	31.8	12.4	225.3
Cash at End of Year	13.8	31.8	12.4

The accompanying notes to the consolidated financial statements are an integral part of these statements.

consolidated statement of **Financial Position**

(dollars in millions)
December 31,

Assets

Current Assets

Cash.....	13.8	31.8
Accounts receivable and other	361.1	278.9
Gas in storage	279.1	293.0
	654.0	603.7

Long Term Investments (Note 7)	177.1	95.7
Deferred Charges and Other.....	123.0	99.9
Property, Plant and Equipment, Net (Note 8)	4,807.0	4,377.7
	5,761.1	5,177.0

Liabilities and Shareholders' Equity

Current Liabilities

Short term borrowings (Note 9)	446.8	401.4
Accounts payable and other.....	400.4	308.4
Interest payable	65.7	61.6
Current portion of long term liabilities	92.1	117.4
	1,005.0	888.8

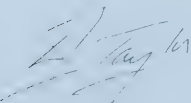
Long Term Debt (Note 9).....	2,939.0	2,653.9
Deferred Credits.....	47.5	26.7
Deferred Income Taxes	373.6	373.1
Minority Interest (Note 2)	—	138.9
Contingencies (Note 15)		
	4,365.1	4,081.4

Shareholders' Equity

Capital stock (Note 10)		
Issued – 67,490,000 common shares (1995 – 60,873,000)	1,126.2	879.6
Retained earnings.....	266.5	212.1
Foreign currency translation adjustment	3.3	3.9
	1,396.0	1,095.6
	5,761.1	5,177.0

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Approved by the Board:



Director



Director

Notes to the 1996 Consolidated Financial Statements

(dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies

The Corporation's primary business activities are the transportation of crude oil and other liquid hydrocarbons by pipeline and the distribution of natural gas. Pipeline activities consist of the ownership and/or operation of various pipeline systems located in Canada and the United States. The natural gas distribution business consists primarily of utility operations serving central and eastern Ontario.

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee. Amounts are stated in Canadian dollars unless otherwise noted.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures.

Basis of Presentation The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. Investments in entities which are not subsidiaries, but over which the Corporation exercises significant influence, are accounted for using the equity method. Other investments are accounted for on the cost basis.

The Corporation's natural gas distribution business is conducted through a wholly owned subsidiary, The Consumers' Gas Company Ltd. (Note 2). The Corporation consolidates the September 30 fiscal year results of Consumers Gas on a quarter lag basis as this method of consolidation reflects the results of gas distribution activities in accordance with its regulatory, tax and operating cycles. Accordingly, references to "December 31" reflect the financial position of Consumers Gas as at September 30, and references to the "year ended December 31" include the results of Consumers Gas for its fiscal year ended September 30 (1994 – from June 30, the date of acquisition, to September 30).

Regulation The Corporation's primary business activities are subject to regulation by various authorities, including the National Energy Board (NEB) for Canadian pipeline operations, the Federal Energy Regulatory Commission (FERC) for U.S. pipeline operations, and the Ontario Energy Board (OEB) for the gas distribution segment. These regulatory authorities exercise statutory authority over various matters such as construction, rates and underlying accounting practices, and ratemaking agreements with shippers. In order to achieve proper matching of revenues and expenses, the Corporation follows accounting practices prescribed by the regulators or stipulated in approved ratemaking agreements. Accordingly, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under generally accepted accounting principles applicable to non regulated operations.

Foreign Currency Translation The Corporation's foreign operating activities are self sustaining and are translated into Canadian dollars using the current rate method. Assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the date of the consolidated statement of financial position. Revenue and expense items are translated at exchange rates prevailing during the year. Gains and losses resulting from these translation adjustments are deferred as a separate component of shareholders' equity until there is a realized reduction of a foreign investment.

The Corporation's foreign investing and financing activities are integrated and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at rates of exchange in effect at the date of the consolidated statement of financial position. Non monetary assets and liabilities are translated at historical rates of exchange. Income and expense items are translated at exchange rates prevailing during the year, except for items relating to non monetary assets and liabilities which are translated at the applicable historical rates of exchange. Gains and losses resulting from these translation adjustments are included in earnings.

Revenue Recognition Revenue derived from the transportation of crude oil and other liquid hydrocarbons is recognized primarily upon delivery. Revenue from the distribution of natural gas is recorded when billed, on the basis of meter readings or estimates made throughout the month and not adjusted for consumption to month end.

Income Taxes The Corporation recovers income tax expense based on the taxes payable method when prescribed by the regulators for ratemaking purposes or when stipulated in ratemaking agreements. Under this method, no provision is made for income taxes deferred as a result of timing differences in the recognition of revenues and expenses for income tax and financial statement purposes. This method is followed for accounting purposes as there is reasonable expectation that all such taxes will be recovered through rates when they become payable. In all other instances, the tax allocation method of accounting is followed.

Cash Cash includes short term deposits, which are all highly marketable securities with a maturity of three months or less when purchased. Short term deposits are held to maturity and valued at cost.

Gas in Storage Supplies of natural gas are costed into inventory at prices as approved by the OEB in the determination of customer sales rates. The actual cost of gas purchased includes the effect of any natural gas price risk management activities. The difference between the approved price and the actual cost of the gas purchased is deferred for future disposition as approved by the OEB.

Deferred Financing Charges Deferred financing charges are amortized on the straight line basis over the life of the related debt. Unamortized financing charges related to refinanced debt, together with the costs of issuing replacement debt, are deferred and amortized over the life of the replacement issues.

Property, Plant and Equipment Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Regulated operations in Canada follow the practice of capitalizing, at rates authorized by the regulatory authorities, an allowance for interest during construction. When prescribed by the regulator, Canadian pipeline operations also capitalize an allowance for equity funds used during construction, at authorized rates.

Contributions in aid of construction of gas distribution assets are deducted from the cost of acquiring property, plant and equipment, with subsequent depreciation calculated on the net cost.

Depreciation Depreciation of property, plant and equipment is provided on the straight line basis over their estimated service lives. When property, plant and equipment are retired or otherwise disposed of, the cost less net proceeds is charged to accumulated depreciation. For unusual disposals, the gain or loss arising on disposition is included in earnings.

A provision for future removal and site restoration costs for the gas distribution segment is recorded and recovered through depreciation at rates approved by the OEB. Actual costs incurred are charged to accumulated depreciation. Similar costs are not recovered through tolls for crude oil pipeline operations as regulatory approval has not been sought and the recovery method and timing have not been determined. No provision has been made for future pipeline removal and site restoration costs since it is expected that these costs will be recovered through pipeline tolls.

Off Balance Sheet Financial Instruments Amounts received or paid under financial instruments used to hedge purchases of natural gas are recognized as part of the actual cost of the underlying physical purchase. The effect of forward foreign exchange contracts used to match the effect of translating Canadian dollar denominated monetary items held by an integrated U.S. subsidiary is recognized in earnings at the same time as the translation gains or losses. For other off balance sheet financial instruments, amounts received or paid, including deferred gains and losses realized upon settlement, are recognized over the life of the underlying hedged items.

Postretirement Benefits For the pipeline segment's defined benefit pension plan, pension costs and obligations are determined using the projected benefit method and are charged to earnings as services are rendered. For the segment's defined contribution plan, contributions made are expensed as pension costs. For the gas distribution segment, consistent with the ratemaking process, only contributions made to the defined benefit pension plan are expensed as pension costs.

The Corporation also provides postretirement benefits other than pensions, including group health care and life insurance benefits for eligible retirees, their spouses and qualified dependants. For Canadian pipeline and gas distribution operations, these costs are charged to earnings as incurred. For U.S. operations, the cost of such benefits is accrued during the years the employees render service.

Comparative Amounts Certain comparative amounts are reclassified to conform with the current year's financial statement presentation.

2. Acquisition of Consumers Gas

On June 30, 1994, the Corporation acquired 85% of the outstanding common shares of Consumers Gas, and certain other related assets, for an aggregate purchase price of \$1,203.8 million. This acquisition was accounted for using the purchase method. The investment exceeded the book value of the net assets acquired by \$460.6 million. This excess was allocated to property, plant and equipment acquired, on the basis of estimated fair values, and is being amortized over the economic life of such assets.

On December 9, 1996, the Corporation completed a transaction to acquire the remaining 15% of the common shares of Consumers Gas. The purchase price of \$248.6 million was financed by the exchange of 2,645,000 common shares of the Corporation having a fair value of \$105.1 million, and variable rate financing. This investment, also accounted for using the purchase method, exceeded the book value of the minority interest acquired by \$105.0 million which was allocated to property, plant and equipment, on the basis of estimated fair values, and is being amortized over the economic life of such assets.

3. Segmented Information

Pipeline The Corporation's main pipeline system is the primary transporter of Western Canadian crude oil production. The system extends across the Canadian prairies to the major refining centres in the Great Lakes region of the United States and continues into Ontario and Quebec. The Canadian portion of the system is owned and operated by a wholly owned subsidiary; the U.S. portion is operated and 18% owned by a wholly owned U.S. subsidiary. The Corporation also owns other pipelines in North America through wholly owned subsidiaries.

Gas Distribution The gas distribution segment consists of utility operations which serve over 1.3 million residential, commercial, industrial and other customers, primarily in central and eastern Ontario.

International The international business segment reflects the Corporation's long term investment in a crude oil pipeline project in Colombia for which the Corporation also acts as an operator. Revenue and expenses associated with international consulting and business development activities are also included in this segment.

Corporate The corporate segment reflects other investing and financing activities including general corporate investments and costs associated with non regulated debt.

Business Segments

<i>Year ended December 31, 1996</i>	<i>Pipeline</i>	<i>Gas Distribution</i>	<i>International</i>	<i>Corporate</i>	<i>Total</i>
Operating revenue.....	503.0	1,949.2	5.7	—	2,457.9
Expenses					
Gas costs.....	—	1,064.3	—	—	1,064.3
Operating and administrative	215.2	345.5	9.2	6.4	576.3
Depreciation.....	88.3	146.6	0.1	2.0	237.0
	303.5	1,556.4	9.3	8.4	1,877.6
Operating income (loss)	199.5	392.8	(3.6)	(8.4)	580.3
Investment and other income, net	25.6	4.4	5.8	(4.1)	31.7
Interest expense.....	(70.2)	(158.7)	—	(42.4)	(271.3)
Earnings (loss) before undernoted	154.9	238.5	2.2	(54.9)	340.7
Income taxes	(62.3)	(104.6)	2.6	26.0	(138.3)
Minority interest.....	—	(22.1)	—	—	(22.1)
Earnings (loss)	92.6	111.8	4.8	(28.9)	180.3
Earnings (loss) per share.....	1.49	1.79	0.08	(0.46)	2.90
Capital expenditures.....	164.7	392.9	0.1	2.8	560.5
<i>December 31, 1996</i>					
Identifiable assets.....	1,676.2	3,869.2	109.4	106.3	5,761.1

Year ended December 31, 1995

	Pipeline	Gas Distribution	International	Corporate	Total
Operating revenue	464.2	1,855.2	3.4	—	2,322.8
Expenses					
Gas costs	—	1,123.0	—	—	1,123.0
Operating and administrative	193.5	317.4	6.1	(1.2)	515.8
Depreciation	88.9	131.4	0.1	1.1	221.5
	282.4	1,571.8	6.2	(0.1)	1,860.3
Operating income (loss)	181.8	283.4	(2.8)	0.1	462.5
Investment and other income, net	20.4	2.4	2.3	14.0	39.1
Interest expense	(73.3)	(149.8)	—	(58.7)	(281.8)
Earnings (loss) before undernoted	128.9	136.0	(0.5)	(44.6)	219.8
Income taxes	(48.7)	(45.5)	2.1	17.7	(74.4)
Minority interest	—	(15.0)	—	—	(15.0)
Earnings (loss)	80.2	75.5	1.6	(26.9)	130.4
Earnings (loss) per share	1.41	1.33	0.03	(0.47)	2.30
Capital expenditures	82.3	345.4	0.2	0.8	428.7
<i>December 31, 1995</i>					
Identifiable assets	1,566.5	3,475.6	44.5	90.4	5,177.0

Year ended December 31, 1994

	Pipeline	Gas Distribution	International	Corporate	Total
Operating revenue	397.4	194.1	—	—	591.5
Expenses					
Gas costs	—	105.3	—	—	105.3
Operating and administrative	200.9	66.2	—	0.3	267.4
Depreciation	70.8	30.2	—	1.0	102.0
	271.7	201.7	—	1.3	474.7
Operating income (loss)	125.7	(7.6)	—	(1.3)	116.8
Investment and other income, net	33.7	3.0	—	35.4	72.1
Interest expense	(55.8)	(34.8)	—	(60.8)	(151.4)
Earnings (loss) before undernoted	103.6	(39.4)	—	(26.7)	37.5
Income taxes	(29.5)	19.2	—	13.9	3.6
Minority interest	—	2.5	—	—	2.5
Earnings (loss)	74.1	(17.7)	—	(12.8)	43.6
Earnings (loss) per share	1.85	(0.44)	—	(0.32)	1.09
Capital expenditures	278.0	97.5	—	1.1	376.6
<i>December 31, 1994</i>					
Identifiable assets	1,568.7	3,322.0	20.0	435.4	5,346.1

The Corporation does not have reportable geographic segments other than Canada. Assets located outside of Canada are operationally insignificant or are of a general corporate nature.

4. Investment and Other Income

Year ended December 31,

	1996	1995	1994
Long term investments.....	21.1	21.2	37.1
Short term investments.....	3.0	6.2	11.2
Allowance for equity funds used during construction.....	2.3	1.0	6.4
Other	5.3	10.7	17.4
	31.7	39.1	72.1

5. Interest Expense

Year ended December 31,

	1996	1995	1994
Long term debt	265.8	266.7	139.9
Short term borrowings	14.7	19.4	4.4
Convertible Debentures (Note 10)	—	2.5	14.9
Capitalized	(9.2)	(6.8)	(7.8)
	271.3	281.8	151.4

6. Income Taxes

The geographic components of pretax earnings and income taxes were as follows:

Year ended December 31,

Earnings before income taxes and minority interest

	1996	1995	1994
Canada.....	278.2	171.3	(12.6)
United States	51.2	42.6	50.1
Other	11.3	5.9	—
	340.7	219.8	37.5

Current income taxes

	1996	1995	1994
Canada.....	97.0	58.2	(25.6)
United States	27.9	30.8	29.9
Other	0.8	0.3	—
	125.7	89.3	4.3

Deferred income taxes

	1996	1995	1994
Canada.....	22.1	(0.9)	2.0
United States	(9.5)	(14.0)	(9.9)
	12.6	(14.9)	(7.9)

Income taxes (recovery)

	1996	1995	1994
	138.3	74.4	(3.6)

Deferred income taxes have arisen as a result of the following items:

Year ended December 31,

Difference between capital cost allowance and depreciation:

	1996	1995	1994
Property, plant and equipment.....	(0.5)	(2.4)	(1.9)
Long term investment	(0.6)	(0.5)	(2.3)
Transfer of U.S. pipeline business to Master Limited Partnership	(8.2)	(15.7)	(6.3)
Timing of recognition of regulatory deferral accounts	28.7	—	—
Other	(6.8)	3.7	2.6
	12.6	(14.9)	(7.9)

Accumulated deferred income taxes which have not been recorded in the accounts amounted to \$466.4 million at December 31, 1996 (1995 – \$448.0 million). Had the deferred method of tax allocation been prescribed by the regulatory authorities for ratemaking purposes, such amounts would have been recorded and recovered in rates to date.

The income tax provision differs from the amount that would have been expected using the combined Canadian federal and provincial statutory income tax rate. The difference results from the items shown in the following table:

<i>Year ended December 31,</i>	1996	1995	1994
Earnings before income taxes and minority interest.....	340.7	219.8	37.5
Statutory income tax rate.....	44.6%	44.6%	44.3%
Income taxes at statutory rate	152.0	98.0	16.6
Increase (decrease) resulting from:			
Timing differences for which no deferred taxes are provided ¹	(18.4)	(38.6)	(20.7)
Permanent differences.....	10.9	10.3	(0.7)
Income tax rate differentials	(9.9)	(6.3)	(4.5)
Income taxes recoverable from customers	(6.9)	—	—
Large Corporations Tax in excess of surtax.....	8.1	8.0	4.7
Other	2.5	3.0	1.0
Income taxes (recovery)	138.3	74.4	(3.6)
Effective income tax rate.....	40.6%	33.8%	(9.6%)

¹ Revenue Canada has changed its assessing practice relating to natural gas utilities with respect to the computations for tax purposes of capitalized expenditures. Effective 1996, these items are treated consistently in the determination of both accounting and taxable income.

7. Long Term Investments

<i>December 31,</i>	1996	1995
U.S. Master Limited Partnership	33.9	33.3
Colombia Pipeline Project.....	101.9	38.7
Other	41.3	23.7
	177.1	95.7

U.S. Master Limited Partnership The portion of the main pipeline system located in the United States is owned by Lakehead Pipe Line Partners, L.P., a U.S. Master Limited Partnership. The Corporation's wholly owned U.S. subsidiary, Lakehead Pipe Line Company, Inc., holds an approximate 18% equity interest in the Partnership and manages and operates the U.S. pipeline business as the General Partner.

The Corporation's interest in the net income of the Partnership, adjusted for an allocation of depreciation on an historical cost basis for assets contributed on formation of the Partnership, amounted to \$17.1 million (1995 – \$13.0 million; 1994 – \$19.9 million). In 1996, the Corporation received cash distributions of \$16.8 million from the Partnership (1995 – \$16.4 million; 1994 – \$15.7 million). The carrying value of the Corporation's investment in the Partnership includes unremitted equity earnings of \$8.9 million (1995 – \$8.7 million).

In September 1994, the Partnership completed a public issue of additional Preference Units which reduced Lakehead's equity interest in the Partnership from 20% to 18%. The proceeds received by the Partnership were allocated among the capital accounts of the unitholders based upon the increase in Partnership net assets attributable to each interest as a result of the issue. The Corporation's pro rata share of Partnership net assets increased by \$12.4 million, which was recognized in earnings in 1994.

Lakehead Services, Limited Partnership facilitates the ongoing financing of the Partnership. Lakehead owns a 99% limited partner interest in the Services Partnership and the Partnership holds a 1% general partner interest. The Services Partnership has irrevocably placed U.S.\$55.8 million (1995 – U.S.\$124.0 million) of U.S. government securities in a trust to be used solely for satisfying scheduled payments of both interest and principal on borrowings of U.S.\$52.0 million (1995 – U.S.\$120.0 million) under a Revolving Credit Facility Agreement which was assumed by the Services Partnership from the Partnership. This transaction has been recognized as an in substance defeasance and the debt is considered to be extinguished.

Colombia Pipeline Project Pursuant to an agreement with a consortium of crude oil producers/shippers, the Corporation has made a long term investment in a pipeline project in Colombia. Under the terms of the agreement, the Corporation earns a fixed rate of return on its investment effective January 1, 1995 and has no residual interest in the assets of the project. From time to time, the Corporation is required to provide further funds upon the call of the parties to the agreement. During 1996, the Corporation invested U.S.\$47.0 million in the project (1995 – U.S.\$13.2 million; 1994 – U.S.\$14.9 million). At December 31, 1996, the Corporation had a remaining commitment of approximately U.S.\$22 million. Under a separate agreement, the Corporation acts as one of the operators of the project and earns operating fees.

This investment, which is accounted for on the cost basis, is to be redeemed in equal payments over a ten year period. Subject to certain conditions, redemption may commence in 2003 but, in any event, no later than 2012.

Earnings, which are recognized as investment income to the extent received or receivable, amounted to \$8.9 million in 1996 reflecting the fixed rate of return on the investment (1995 – \$4.8 million).

8. Property, Plant and Equipment, Net

<i>December 31, 1996</i>	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
Pipeline	3.5%	2,505.0	1,002.7	1,502.3
Gas Distribution	2.5%	3,527.0	248.5	3,278.5
Other	5.1%	38.4	12.2	26.2
		6,070.4	1,263.4	4,807.0

<i>December 31, 1995</i>	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
Pipeline.....	4.0%	2,350.0	924.7	1,425.3
Gas Distribution	2.5%	3,089.0	161.7	2,927.3
Other	3.0%	35.4	10.3	25.1
		5,474.4	1,096.7	4,377.7

The average depreciation rate for the gas distribution segment, after inclusion of a provision for future removal and site restoration costs, is 4.0% (1995 – 3.9%).

9. Debt

Long Term Debt

December 31,	Weighted Average Interest Rate	Maturity	1996	1995
Regulated Debt				
Pipeline				
Fixed rate ¹	9.0%	1998 – 2024	738.9	740.1
Variable rate.....			—	19.1
			738.9	759.2
Gas Distribution				
Fixed rate.....	9.5%	1997 – 2025	1,397.2	1,246.0
Other ²	9.0%	1997	33.2	75.3
Preference shares.....			100.0	100.0
			1,530.4	1,421.3
Total regulated debt.....			2,269.3	2,180.5
Non Regulated Debt				
Fixed rate ³	8.9%	1998 – 2001	303.4	303.4
Variable rate.....	3.3%		450.6	279.5
Total non regulated debt.....			754.0	582.9
Total long term debt.....			3,023.3	2,763.4
Current portion of long term debt.....			(84.3)	(109.5)
Long term debt			2,939.0	2,653.9

¹ Includes \$62.2 million of debentures (1995 – \$163.9 million) secured by a first mortgage on specific pipeline properties and the assignment of the benefits of a shipping agreement.

² Primarily comprises commercial paper borrowings effectively converted into long term debt through the use of long term interest rate swaps.

³ Includes U.S.\$130.0 million 9.4% debentures issued in 1995 which were effectively converted into Canadian \$175.1 million at an effective cost of 5.5% reflecting the use of a cross currency swap and the amortization of both debenture purchase warrant proceeds totaling \$13.3 million and hedging costs over the life of the primary instrument.

The amounts of long term debt maturities and sinking fund requirements for the years ending December 31, 1997 through 2001, in millions, are \$84.3, \$352.1, \$159.7, \$73.0 and \$441.0, respectively.

The weighted average interest rate on short term borrowings (which finance primarily gas in storage and other working capital items) at December 31, 1996, including the effect of hedging instruments, was 5.1% (1995 – 6.6%).

Preference Shares of Gas Distribution Segment Effective January 1, 1996, the Corporation retroactively adopted the presentation standards issued by the Canadian Institute of Chartered Accountants relating to the classification of financial instruments between liabilities and equity. Accordingly, the Cumulative Redeemable Retractable Preference Shares of Consumers Gas (Group 2 \$1.6125 Series C – 2,000,000 shares, \$50.0 million; Group 3 \$1.43 Series C – 2,000,000 shares, \$50.0 million) are classified as long term debt. Dividends on these shares for the year ended December 31, 1996, amounted to \$6.1 million and are included in interest expense (1995 – \$6.1 million; 1994 – \$1.5 million). Previously, these shares were classified as minority interest in the consolidated statement of financial position with related dividends classified as a minority interest deduction in the consolidated statement of earnings.

Credit Facilities At December 31, 1996, the Corporation had \$1,615.0 million of credit facilities arranged for the following business segments:

	<i>Committed</i>	<i>Uncommitted</i>	<i>Drawdowns</i>
Pipeline	150.0	—	—
Gas Distribution.....	359.5	305.5	6.9
Corporate.....	800.0	—	—
	1,309.5	305.5	6.9

Committed facilities carry a weighted average standby fee of 0.083% per annum on the unutilized portion. The committed facilities for the pipeline and gas distribution segments expire in 1997 and are extendible subject to the approval of the lenders. The committed facility for corporate purposes expires in 2001. Drawdowns under these facilities bear interest at prevailing market rates.

10. Capital Stock

The authorized capital stock of the Corporation consists of an unlimited number of common and preferred shares. No preferred shares have been issued.

<i>(number of shares in thousands)</i>	<i>1996</i>		<i>1995</i>		<i>1994</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Balance at beginning of year	60,873	879.6	40,583	243.8	39,932	225.2
Dividend Reinvestment and Share Purchase Plan	920	31.6	849	24.9	395	10.7
Public issue	3,000	106.6	4,170	122.2	—	—
Acquisition of remaining common shares of Consumers Gas (Note 2) ..	2,645	105.1	—	—	—	—
Conversion of Convertible Debentures ...	—	—	15,079	483.4	243	7.6
Other	52	3.3	192	5.3	13	0.3
Balance at end of year	67,490	1,126.2	60,873	879.6	40,583	243.8

Earnings Per Share Earnings per share are computed on the weighted average number of shares outstanding of 62,165,000, 56,791,000, and 40,086,000 in 1996, 1995, and 1994, respectively. On a full year basis, there were no materially dilutive instruments outstanding during each of the years in the three year period ended December 31, 1996.

Dividend Reinvestment and Share Purchase Plan The Corporation has a Dividend Reinvestment and Share Purchase Plan. Under the Plan, registered shareholders may reinvest dividends in common shares of the Corporation at a discount to market, and purchase additional common shares at the market price through optional cash payments of up to \$5,000 per quarter.

Issue of Capital Stock On October 7, 1996, the Corporation completed a public offering of 3,000,000 common shares for cash proceeds of \$111.2 million less related issue costs. On May 26, 1995, the Corporation completed a public offering of 4,170,000 common shares for cash proceeds of \$125.1 million less related issue costs.

Convertible Debentures On March 24, 1994, the Corporation issued \$500 million 3.75% Convertible Unsecured Subordinated Debentures, represented by instalment receipts, with a maturity date of March 15, 2015, in order to provide permanent financing for the acquisition of Consumers Gas. The debentures became convertible, at the option of the holders, into common shares of the Corporation upon payment of the second instalment which was due March 1, 1995. At December 31, 1995, all of the debentures had been converted.

Shareholder Rights Plan The Corporation has a Shareholder Rights Plan designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Corporation. The rights issued under the plan become exercisable when a person, and any related parties, acquires or announces its intention to acquire 20% or more of the Corporation's outstanding common shares without complying with certain provisions set out in the rights plan, or without approval of the Board of Directors of the Corporation. Should such an acquisition or announcement occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Corporation at a 50% discount to the market price at that time.

11. Stock Options

Under the Corporation's stock option plan, full time key employees are granted options to purchase unissued common shares, exercisable at the market price of common shares at the date the options are granted. Under current provisions of the plan, options vest in equal annual instalments over a four year period and expire after ten years from the original issue date. The plan also provides for option holders to receive restricted stock units equivalent to the amount of dividends that would have been received on the number of common shares subject to unexercised options. A maximum of 2,000,000 common shares are reserved for issuance under the plan.

	1996		1995		1994	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
<i>(options in thousands; exercise prices in dollars)</i>						
Number of shares under option at beginning of year	656	28.46	496	26.49	384	25.34
Options granted.....	87	40.00	199	32.75	143	29.19
Options exercised.....	(49)	23.48	(35)	22.72	(10)	22.50
Options cancelled or expired	(2)	27.35	(4)	27.66	(21)	25.75
Number of shares under option at end of year	692	30.29	656	28.46	496	26.49

At December 31, 1996, the exercise prices of outstanding stock options ranged from \$22.86 to \$40.00 (1995 - \$19.55 to \$32.75; 1994 - \$17.67 to \$32.375). Outstanding stock options will expire over a period ending no later than November 4, 2006.

12. Financial Instruments

Fair Value of Financial Instruments The fair value of financial instruments represent an approximation of amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments prior to maturity. At December 31, 1996, the Corporation had no intention of settling any instruments prior to maturity. Carrying amounts of financial instruments represent actual amounts recorded in the consolidated statement of financial position.

With the exception of the items listed, the estimated fair values of all financial instruments approximate the carrying amounts.

December 31,	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long term debt				
Regulated.....	2,269.3	2,586.7	2,180.5	2,397.7
Non regulated.....	754.0	782.9	582.9	614.7

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 1996 and 1995:

- The fair value of *long term debt* is based on quoted market prices at year end for the same or similar instruments, or based on the discounted future cash flows of each debt issue at current interest rates for remaining terms to maturity. Due to the regulatory nature of business operations, the Corporation has the ability to recover interest on regulated debt at existing rates.
- The carrying amount of the Corporation's *long term investment* in the Colombia Pipeline Project approximates fair value as the contractual rate of return represents current market rates for investments with similar terms and conditions.
- The carrying amounts of all financial instruments classified as current approximate fair value because of the short term maturities of these instruments.

Trade receivables relating to crude oil pipeline operations consist primarily of amounts due from companies operating in the oil and gas industry and are collateralized by the crude oil and other products contained in the Corporation's pipeline and storage facilities. Credit risk with respect to trade receivables of the gas distribution business is reduced by the large and diversified customer base, and the ability to recover an estimate for doubtful accounts through the ratemaking process. The allowance for doubtful accounts amounted to \$15.6 million at December 31, 1996 (1995 - \$15.0 million).

Off Balance Sheet Financial Instruments In order to manage its exposure to fluctuations in foreign exchange rates, interest rates and natural gas prices, the Corporation utilizes a variety of hedging instruments to create an offsetting position to specific exposures. All of these instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes.

By entering into these hedging instruments, the Corporation agrees to exchange with counterparties the difference between fixed and variable amounts, calculated by reference to specific interest rates, foreign exchange rates or natural gas price indexes and based on a notional principal amount or quantity of natural gas. The notional amounts are not recorded in the financial statements as they do not represent amounts exchanged by the counterparties.

The fair value of off balance sheet financial instruments reflects the estimated amounts that the Corporation would receive or pay to terminate the contracts at the reporting date, calculated as the difference between the present value of estimated future receipts and future payments under the terms of each instrument. At December 31, 1996, the Corporation had no intention of settling any instruments prior to maturity.

At year end, the Corporation was party to off balance sheet financial instruments hedging the following exposures:

December 31,

		1996 Notional Principal or Quantity	Fair Value Payable		1995 Notional Principal or Quantity	Fair Value Payable
	Maturity			Maturity		
Foreign exchange.....	1997-2001	328.6	19.1	1996-2001	327.9	9.6
Interest rates	1997-2002	375.0	4.7	1996-2006	371.9	2.0
Natural gas prices (billion cubic feet)	1997	46.7	1.6	1996	57.7	5.7

Forward foreign exchange contracts, including cross currency swaps, are used to hedge the exposure on U.S. dollar denominated debt and to match the effect of translating Canadian dollar denominated monetary items held by an integrated U.S. subsidiary.

To hedge against the effect of future interest rate movements on its short term and long term borrowing requirements, the Corporation enters into forward interest rate agreements, interest rate swaps and interest rate collars.

The Corporation also uses natural gas price swaps, options and collars to manage its exposure to price fluctuations which, under the majority of system supply gas contracts, are indexed to U.S. dollar denominated natural gas futures contracts plus a basis differential or to Alberta based gas price indices. At December 31, 1996, the Corporation had entered into natural gas price swaps and options to effectively manage the price for approximately 27%, or 46.7 billion cubic feet, of its forecast 1997 system gas supply. During the year ended December 31, 1996, the Corporation hedged 42%, or 83.6 billion cubic feet, of its system gas supply (1995 - 56%, or 104.5 billion cubic feet).

To limit its exposure to credit losses, the Corporation deals only with high credit rated institutions. At December 31, 1996 and 1995, no material credit risk exposure existed as the Corporation was not party to any off balance sheet financial instruments in a significant receivable position.

There were no material gains or losses deferred in relation to any of the Corporation's off balance sheet hedges of anticipated transactions at December 31, 1996 and 1995.

13. Postretirement Benefits

Pension Plans The Corporation has contributory and non contributory defined benefit pension plans for pipeline and gas distribution operations. Retirement benefits are based on the employees' years of service and remuneration. Contributions made by the Corporation are in accordance with independent actuarial valuations and are invested primarily in publicly traded equity and fixed income securities. Effective January 1, 1997, the Canadian pipeline operations introduced a non contributory defined contribution pension plan. This plan will cover all employees hired after this date as well as existing employees who elected to leave the defined benefit plan on a prospective basis. Contributions under this plan are based on each employee's age and years of service.

For pipeline operations, pension costs under the defined benefit pension plan reflect management's best estimates of the rate of return on pension plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes to assumptions are amortized over the expected average remaining service lives of the employees. For the defined contribution plan, pension expense will equal amounts contributed by the Corporation.

For the gas distribution segment, the Corporation records as its pension expense the contributions deemed sufficient by its actuaries to fully fund the plan over an acceptable time frame.

The status of the Corporation's defined benefit pension plans was as follows:

<i>December 31,</i>	1996	1995
Pension plan assets at market values:		
Pipeline	242.6	212.4
Gas distribution	495.4	431.5
	<u>738.0</u>	<u>643.9</u>
Projected benefit obligations:		
Pipeline	175.8	173.6
Gas distribution	318.8	297.5
	<u>494.6</u>	<u>471.1</u>

The Corporation's pension cost amounted to \$9.8 million (1995 – \$9.6 million; 1994 – \$2.4 million) and the deferred pension asset was \$12.9 million (1995 – \$12.3 million).

Postretirement Benefits Other than Pensions The cost of providing postretirement benefits other than pensions amounted to \$1.3 million (1995 –\$1.4 million; 1994 – \$0.6 million).

14. **Related Party Transactions**

The U.S. Master Limited Partnership, which does not have any employees, uses the services of the Corporation for managing and operating the U.S. pipeline business. These services, which are charged at cost in accordance with service agreements, amounted to \$46.1 million (1995 – \$46.7 million; 1994 – \$48.1 million). Accounts receivable include \$2.0 million due from the Partnership (1995 – \$1.6 million).

15. **Contingencies**

Consumers Gas Consumers Gas is aware that the remediation of discontinued manufactured gas plant sites may become an issue in the future. The probable overall cost of remediation measures cannot be determined at this time due to uncertainty about the existence or extent of environmental risks, the complexity of laws and regulations particularly with respect to sites decommissioned years ago and no longer owned by Consumers Gas, and the selection of alternative remediation approaches. Although there are no known regulatory precedents in Canada, there are precedents in the United States for recovery of costs of a similar nature in rates. Consumers Gas expects that, if it is found that it must contribute to any remediation costs, it would be generally allowed to recover in rates those costs not recovered through insurance or by other means and believes that the ultimate outcome of these matters would not have a significant impact on its financial position.

In 1994, a class action was commenced against Consumers Gas by a customer alleging that the OEB approved late payment penalties charged to customers were contrary to federal law and seeking certification of the action as a class action. The claim sought \$112 million in restitutionary payments and other relief on behalf of all people who were customers of Consumers Gas who had paid or been charged such penalties since April 1, 1981. The class action was not certified by the Court although the Class Proceedings Committee, established under the Ontario Class Proceedings Act, 1992, decided that it would fund the action. On February 13, 1995, Mr. Justice Winkler, of the Ontario Court of Justice, General Division, issued a judgement in favour of Consumers Gas dismissing the class action lawsuit. He concluded that the late payment charge is not interest payable on a credit transaction, but is an incentive to customers to pay their bills by a certain date. He held that Section 347 of the Criminal Code of Canada, which deals with interest on credit transactions, did not apply. On March 10, 1995, the plaintiff's solicitors filed a notice of an appeal of the decision of the trial judge. The appeal was heard on September 12, 1996, and on September 19, 1996 the

Court of Appeal dismissed the appeal. The plaintiff has sought leave to appeal to the Supreme Court of Canada from the decision of the Court of Appeal. The submissions of the parties have been filed with the Supreme Court, but the Court has not yet issued its decision as to whether leave to appeal will be granted. Consumers Gas is continuing to collect the penalties and will defend the action which it believes has no validity.

U.S. Master Limited Partnership Lakehead has agreed to indemnify the Partnership from and against substantially all liabilities, including liabilities relating to environmental matters, arising from operations prior to the transfer of its pipeline operations to the Partnership in 1991. This indemnification does not apply to amounts that the Partnership would be able to recover in its tariff rates or through insurance or to any liabilities relating to a change in laws after December 27, 1991. In addition, in the event of default, Lakehead, as the General Partner, is subject to recourse with respect to the Partnership's long term debt which amounted to U.S.\$463.0 million at December 31, 1996.

Corporate The Corporation is subject to recourse with respect to the long term debt of a Canadian long term investment which amounted to \$9.2 million at December 31, 1996.

Provisions have been made for potential claims against the Corporation arising in the normal course of business. The ultimate amount of such claims cannot be reasonably estimated at this time. However, in the opinion of management, claims in excess of the provisions made, if any, would not be material.

16. United States Accounting Principles

As a registrant with the United States Securities and Exchange Commission, the Corporation is required to reconcile its financial results for significant differences between generally accepted accounting principles in Canada (Canadian GAAP) and those accepted in the United States (U.S. GAAP). Although the accounting bodies of the two countries are moving towards harmonization of accounting principles, current differences with U.S. GAAP result in variations in reported earnings as well as differences in presentation and disclosure.

The following information describes the effect of differences between Canadian and U.S. GAAP on the Corporation's consolidated financial statements:

Earnings¹	1996	1995	1994
Earnings reported under Canadian GAAP	180.3	130.4	43.6
Foreign currency translation gain (loss).....	1.2	7.8	(12.4)
Earnings under U.S. GAAP	181.5	138.2	31.2
Earnings per share			
Canadian GAAP	2.90	2.30	1.09
U.S. GAAP	2.92	2.43	0.78

	1996		1995		1994	
Cash Flows²	Canada	U.S.	Canada	U.S.	Canada	U.S.
Cash from operating activities	538.0	492.6	470.0	419.3	198.2	8.2
Cash from financing activities	266.4	311.8	59.6	110.3	1,192.6	1,382.6

Financial Position ³	1996		1995	
	Canada	U.S.	Canada	U.S.
Deferred charges and other.....	123.0	1,183.4	99.9	1,027.4
Property, plant and equipment, net.....	4,807.0	5,269.0	4,377.7	4,766.8
Deferred credits.....	47.5	212.0	26.7	167.1
Deferred income taxes	373.6	1,719.1	373.1	1,562.9
Retained earnings	266.5	254.1	212.1	198.5

¹ Under U.S. GAAP, the deferred income tax liability related to integrated foreign operations is considered a monetary item and translated using the rate of exchange in effect at the date of the statement of financial position.

² Under U.S. GAAP, changes in short term borrowings are classified as a financing activity.

In 1996, interest paid, net of amounts capitalized, was \$259.7 million (1995 – \$249.9 million; 1994 – \$124.1 million).

Income taxes paid amounted to \$67.4 million (1995 – \$89.6 million; 1994 – \$69.1 million).

³ Under U.S. GAAP, deferred income tax liabilities are recorded for regulated operations which follow the taxes payable method. As these deferred income taxes are recoverable through future revenues, a corresponding deferred asset is also recorded. These assets and liabilities reflect changes in enacted income tax rates.

U.S. GAAP requires that the costs of postretirement benefits be determined using the accrual method of accounting. The application of the accrual method of accounting for pension and other post retirement benefits on a consolidated basis has no effect on earnings as any difference from the allowed method of recovery is recognized as a deferred asset or credit and would be recovered or refunded, respectively, through the regulatory process.

For business acquisitions, the purchase price allocation reflects the recognition of additional deferred income tax liabilities on the excess of the purchase prices over the net book value of assets acquired and liabilities assumed. A corresponding increase to property, plant and equipment acquired is also recognized. In addition, a portion of the purchase price is allocated to the unrecognized excess of pension plan assets over the projected benefit obligations at the date of acquisition. However, an offsetting deferred liability, reflecting the expected future refund of such excess through the regulatory process, is also recognized.

The following additional disclosures are required under U.S. GAAP:

Deferred Income Taxes

Deferred income taxes have arisen as a result of the following items:

December 31,	1996	1995
Differences between capital cost allowance and depreciation:		
Property, plant and equipment.....	613.6	565.5
Long term investment	27.2	27.8
Recognition of taxes on:		
Acquisition purchase price excess.....	462.0	389.1
Incremental revenue required for recovery of unrecorded taxes.....	380.8	340.6
Transfer of U.S. pipeline business to Master Limited Partnership.....	195.7	207.5
Other	39.8	32.4
Deferred income taxes.....	1,719.1	1,562.9

Pension Plans

Disclosures required under U.S. GAAP for pension plans are as follows:

Projected Benefit Obligations

December 31,	1996	1995
Actuarial present value of accrued pension benefits		
Vested.....	366.4	341.2
Non vested	15.3	14.8
Accumulated benefit obligations	381.7	356.0
Additional amounts related to future salary increases	112.9	115.1
Projected benefit obligations.....	494.6	471.1

Net Pension Asset

December 31,

	1996	1995
Pension plan assets in excess of projected benefit obligations	243.4	172.8
Unrecognized pension plan surplus	(4.8)	(5.8)
Unrecognized net gain	(111.0)	(49.9)
Net pension asset under U.S. GAAP	127.6	117.1

Pension Cost

Year ended December 31,

	1996	1995	1994
Benefits earned during the year	13.5	11.7	6.4
Interest cost on projected benefit obligations	37.9	35.4	17.1
Return on plan assets	(89.9)	(69.9)	(19.2)
Amortization and deferral of unrecognized amounts	37.1	22.5	(4.1)
Amount credited to the Partnership	0.4	0.2	0.4
Pension cost (credit) under U.S. GAAP	(1.0)	(0.1)	0.6

Economic Assumptions

The most significant economic assumptions made in the measurement of the pension costs and the projected benefit obligations of the pension plans were as follows:

Year ended December 31,

	1996	1995	1994
Discount rate	7.8 – 8.5%	7.3 – 8.5%	8.0 – 8.5%
Average rate of salary increases	5.5 – 5.8%	5.5 – 5.8%	5.5 – 5.8%
Average rate of return on pension plan assets	8.0 – 8.5%	8.0 – 8.5%	8.0 – 8.5%

Postretirement Benefits Other Than Pensions

U.S. GAAP requires the accrual, during the years the employees render service, of the expected cost of providing postretirement health care and life insurance to employees, their beneficiaries and qualified dependants. On a consolidated basis, the accrual method of accounting for these benefits became effective in 1995.

Based on actuarial valuations dated January 1, 1995, the status of the Corporation's postretirement benefit plans was as follows:

Postretirement Benefit Obligations

December 31,

	1996	1995
Accumulated postretirement benefit obligation (APBO)		
Retirees eligible for benefits	32.7	32.0
Active employees fully eligible	13.5	13.2
Active employees not fully eligible	30.8	29.7
APBO	77.0	74.9
Plan assets at fair value	11.2	9.0
APBO in excess of plan assets	65.8	65.9
Unrecognized gain	4.8	1.6
Unrecognized transition obligation	(57.1)	(60.9)
Postretirement benefit obligations under U.S. GAAP	13.5	6.6

The transition obligation is being amortized over the expected average remaining service lives of the employee group.

Postretirement Benefit Cost

Year ended December 31,

	1996	1995
Service cost	2.4	2.1
Interest cost	5.8	5.6
Actual return on plan assets	(0.3)	(0.8)
Amortization and deferral of unrecognized amounts	3.5	4.1
Amount charged to the Partnership	(3.0)	(3.0)
Postretirement benefit cost under U.S. GAAP	8.4	8.0

Economic Assumptions

The most significant economic assumptions made in the measurement of the postretirement benefit costs and the projected obligations were as follows:

Year ended December 31,

	1996	1995
Discount rate	7.8 – 8.5%	7.3 – 8.5%
Medical cost trend rate	8.0 – 11.0%	9.0 – 12.0%
Dental cost trend rate	6.0 – 8.5%	6.0 – 8.9%

A 1% change in the assumed health care cost trend rate would result in a \$12.9 million change in the accumulated postretirement benefit obligation and a \$1.7 million change in postretirement benefit costs.

supplementary Information

(unaudited)

Selected Quarterly Financial Data

(dollars in millions, except per share amounts)

1996 Quarters	First	Second	Third	Fourth	Total
Operating revenue	619.2	989.3	522.0	327.4	2,457.9
Operating income.....	148.2	286.5	103.2	42.4	580.3
Earnings	45.7	115.0	23.1	(3.5)	180.3
Cash provided from operating activities	(29.5)	163.2	151.5	252.8	538.0
Earnings per share.....	0.75	1.88	0.37	(0.10)	2.90
Dividends per share.....	0.50	0.50	0.515	0.515	2.03

1995 Quarters	First	Second	Third	Fourth	Total
Operating revenue	560.6	971.5	471.7	319.0	2,322.8
Operating income.....	103.5	237.8	76.1	45.1	462.5
Earnings	25.7	89.0	17.0	(1.3)	130.4
Cash provided from operating activities	114.5	44.9	162.1	148.5	470.0
Earnings per share.....	0.53	1.64	0.20	(0.07)	2.30
Dividends per share.....	0.50	0.50	0.50	0.50	2.00

Quarterly Share Trading Information

TSE (The Toronto Stock Exchange)

1996 Quarters (dollars)	First	Second	Third	Fourth
High	34.375	35.05	37.60	42.00
Low	31.75	32.50	34.25	36.55
Close	33.00	34.30	36.90	39.95
Volume (thousands)	4,741	5,290	8,624	7,438

1995 Quarters (dollars)	First	Second	Third	Fourth
High	30.25	31.00	31.50	33.00
Low	26.875	29.625	29.375	30.50
Close	30.25	30.25	30.75	31.875
Volume (thousands)	7,424	6,659	7,300	5,675

NASDAQ (The National Association of
Securities Dealers Automated Quotation System)

1996 Quarters (U.S. dollars)	First	Second	Third	Fourth
High	25.25	25.75	27.25	31.375
Low	23.00	23.875	25.00	27.00
Close	23.875	25.25	27.08	28.875
Volume (thousands)	34	144	141	228

1995 Quarters (U.S. dollars)	First	Second	Third	Fourth
High	22.00	23.00	23.625	24.75
Low	18.75	21.00	21.50	22.00
Close	21.25	21.91	22.00	22.52
Volume (thousands)	73	31	35	51

five year consolidated Highlights'

(dollars in millions, except per share data)

Segmented Earnings

	1996	1995	1994	1993	1992
Pipeline	92.6	80.2	74.1	66.0	63.2
Gas distribution	111.8	75.5	(17.7)	—	—
International	4.8	1.6	—	—	—
Corporate	(28.9)	(26.9)	(12.8)	14.8	12.3
	180.3	130.4	43.6	80.8	75.5

Cash Flow Data

Cash provided from operating activities	538.0	470.0	198.2	133.9	115.2
Capital expenditures	(560.5)	(428.7)	(376.6)	(82.9)	(116.1)
Dividends	(125.9)	(116.3)	(80.2)	(79.8)	(79.6)

Operating Data

Pipeline

Operating revenue	503.0	464.2	397.4	395.2	392.4
Deliveries (thousands of barrels per day)	1,868	1,731	1,532	1,497	1,454
Barrel miles (billions)	384	382	350	346	340
Average haul (miles)	563	605	625	634	638

Gas Distribution

Operating revenue	1,949.2	1,855.2	194.1	—	—
Distribution volume (billion cubic feet)	429	391	44	—	—
Number of active customers (thousands)	1,307	1,264	1,219	—	—
Degree day deficiency (degrees Celsius) ²					
Actual	4,209	3,748	104	—	—
Forecast based on normal weather	4,058	3,955	118	—	—

¹ Comparability of the above is affected by the acquisition of Consumers Gas on June 30, 1994.

² Degree day deficiency is a measure of coldness. It is calculated by accumulating for each day in the fiscal period the total number of degrees by which the temperature fell below 15 degrees Celsius. The figures given are those accumulated in the Toronto area.

	1996	1995	1994	1993	1992
Shareholder and Investor Information					
Average shares outstanding weighted					
monthly during the year <i>(thousands)</i>	62,165	56,791	40,086	39,889	39,802
Number of registered shareholders at year end	10,060	8,824	7,929	7,590	7,484
Share Trading (TSE)					
High	42.00	33.00	34.25	33.00	34.875
Low	31.75	26.875	26.875	22.375	21.875
Close	39.95	31.875	28.50	32.25	23.00
Volume <i>(thousands)</i>	26,093	27,058	16,352	20,477	7,289
Per Share Data					
Earnings	2.90	2.30	1.09	2.03	1.90
Cash provided from operating activities	8.65	8.28	4.94	3.36	2.89
Dividends	2.03	2.00	2.00	2.00	2.00
Financial Ratios					
Return on average shareholders' equity ¹	15.0%	13.2%	9.5%	17.7%	16.3%
Return on average capital employed ²	7.6%	7.0%	3.9%	8.2%	7.8%
Debt/debt plus shareholders' equity ³	68.4%	69.1%	85.9%	57.1%	58.2%
Debt/total capital employed	62.5%	62.7%	77.9%	41.3%	43.0%
Earnings coverage of interest ⁴	2.3x	1.8x	1.3x	3.3x	2.9x
Dividend payout ratio ⁵	69.8%	89.1%	183.9%	98.8%	105.4%

¹ Earnings divided by average shareholders' equity (weighted monthly during the year).

² Sum of earnings, minority interest and after tax interest expense divided by average capital employed (weighted monthly during the year). Capital employed is equal to the sum of shareholders' equity, minority interest, deferred income taxes, deferred credits, and total long term debt (including current portion).

³ Total long term debt (including current portion) divided by the sum of long term debt, shareholders' equity and minority interest.

⁴ Sum of earnings before income taxes, minority interest and interest expense, divided by interest expense.

⁵ Dividends divided by earnings.

Board of Directors

J. Lorne Braithwaite ^{2,4}
President & Chief Executive Officer
Cambridge Shopping Centres Limited
Toronto, Ontario

William A. Dimma ^{2,4}
Company Director
Toronto, Ontario

E. Susan Evans ¹
Company Director
Calgary, Alberta

F. William Fitzpatrick ^{1,2}
Company Director
Paradise Valley, Arizona

Richard L. George ³
President & Chief Executive Officer
Suncor, Inc.
Calgary, Alberta

Louis D. Hyndman ^{1,3}
Senior Partner
Field Atkinson Perraton
Edmonton, Alberta

Brian F. MacNeill
President & Chief Executive Officer
IPL Energy Inc.

Robert W. Martin ^{1,3}
Chairman
Silcorp Limited
Toronto, Ontario

Earl H. Orser ^{3,4}
Chairman
Spar Aerospace Limited
Toronto, Ontario
Honorary Chairman
London Life Insurance Company
London, Ontario

Donald J. Taylor ^{2,4}
Chairman
IPL Energy Inc.
Jacksons Point, Ontario

¹ Member of Audit, Finance & Risk Committee

² Member of Human Resources & Compensation Committee

³ Member of Environment, Health & Safety Committee

⁴ Member of Governance Committee

Senior Management

Mel F. Belich
Senior Vice President, General Counsel & Corporate Secretary

Patrick D. Daniel
Senior Vice President
President & Chief Executive Officer
Interprovincial Pipe Line Inc.

Brian F. MacNeill
President & Chief Executive Officer

Ronald D. Munkley
Senior Vice President
President & Chief Executive Officer
The Consumers' Gas Company Ltd.

Benny J. Phillips
Senior Vice President
President & Chief Operating Officer
IPL International Inc.

R. Hugh B. Sangster
Senior Vice President
Corporate Development

Derek P. Truswell
Senior Vice President & Chief Financial Officer

Shareholder Information

Registrar and Transfer Agent in Canada

The R-M Trust Company
393 University Avenue
5th Floor
Toronto, Ontario
M5G 2M7

Telephone: (416) 813-4600
Toll Free: (800) 387-0825

The R-M Trust Company also has offices in Halifax, Montreal, Winnipeg, Calgary, Regina and Vancouver.

Co-Registrar and Co-Transfer Agent in the United States

ChaseMellon Shareholder Services L.L.C.

13th Floor
120 Broadway
New York, NY, 10271
USA
Attention: Stock Transfer
Toll Free: (800) 526-0801

Inquiries regarding the dividend reinvestment and share purchase plan, change of address, share transfer, lost certificates, dividends, and duplicate mailings should be directed, as appropriate, to The R-M Trust Company in Canada or to ChaseMellon in the United States.

Other inquiries may be addressed to:

Manager, Investor Relations

IPL Energy Inc.
2900, 421 – 7 Avenue S.W.
Calgary, Alberta, Canada
T2P 4K9
Telephone: (403) 231-3906
Toll Free: (800) 481-2804
Facsimile: (403) 231-4848

Stock Trading

The common shares of IPL Energy Inc. trade in Canada on the Toronto and Montreal stock exchanges under the ticker symbol "IPL" and in the United States on NASDAQ under "IPPIF".

Dividend Reinvestment and Share Purchase Plan

IPL Energy Inc. offers a Dividend Reinvestment and Share Purchase Plan which enables shareholders to reinvest their cash dividends in common shares at a discount to market, and to make additional cash payments for purchases at the market price. Details may be obtained by contacting The R-M Trust Company at any of the locations listed above.

Form 10-K

The Corporation files annually with the Securities and Exchange Commission of the United States a report known as the Annual Report on Form 10-K. Copies of the Form 10-K are available to shareholders, free of charge, upon written request to the Corporation.

Trustee and Registrar for Debentures

Montreal Trust Company
Montreal, Toronto, Winnipeg, Edmonton and Vancouver

Auditors

Price Waterhouse

Annual Meeting

The Annual Meeting of Shareholders will be held at The Metropolitan Centre, Calgary, Alberta, Canada at 1:30 p.m. on Thursday, May 1, 1997.

Registered Office

IPL Energy Inc.
2900, 421 – 7 Avenue S.W.
Calgary, Alberta, Canada
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Printed In Canada





MANAGEMENT INFORMATION CIRCULAR

ANNUAL AND SPECIAL MEETING

OF SHAREHOLDERS

TO BE HELD ON MAY 2, 1996

TORONTO, ONTARIO

March 14, 1996



B. F. MacNeill
President & Chief Executive Officer

March 14, 1996

Dear Shareholder:

You are invited to attend the Annual and Special Meeting of shareholders to be held at 1:30 p.m. on May 2, 1996 in the Plaza Room, Park Plaza Hotel, 4 Avenue Road, Toronto, Ontario, Canada. I hope you will be able to attend. If you are unable to attend in person I urge you to **sign and return the Form of Proxy** in the envelope provided. Your vote is important.

The items of business to be dealt with are listed in the attached Notice of Meeting. In addition to customary matters, shareholders of the Corporation will be asked to approve a Shareholder Rights Plan to encourage the fair treatment of shareholders should a takeover bid offer be made for control of the Corporation, as well as an Incentive Stock Option Plan (1996), which will replace the current Incentive Stock Option Plan (1992). The major features of each are outlined in the Management Information Circular.

The Dividend Reinvestment and Share Purchase Plan introduced two years ago continues to grow in popularity. The Plan provides an efficient and cost effective way for you to increase your investment in the Corporation. It enables you to invest your cash dividends in common shares at a 5% discount to the market price, or acquire additional shares through optional cash payments. In either case, you will not pay brokerage commissions or any other costs associated with administering the Plan. If you wish to obtain additional information, please complete the postage paid tear-out request card printed in the Annual Report to Shareholders and a booklet, more fully describing the features of the Plan, will be mailed to you.

Yours truly,

A handwritten signature in dark ink, appearing to read "Brian F. MacNeill", written over a horizontal line.

BRIAN F. MACNEILL
President &
Chief Executive Officer

IPL ENERGY INC.
NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The Annual and Special Meeting (the "Meeting") of holders of common shares (the "IPL Shares") of IPL Energy Inc. ("IPL" or the "Corporation") will be held in the Plaza Room of the Park Plaza Hotel, 4 Avenue Road, Toronto, Ontario on May 2, 1996 at 1:30 p.m. (Toronto time) for the purposes of:

1. Receiving the Directors' Report to Shareholders, the Consolidated Financial Statements and the Report of the Auditors, for the fiscal year ended December 31, 1995;
2. Electing Directors for the ensuing year;
3. Appointing the Auditors;
4. Considering and, if thought fit, approving the Incentive Stock Option Plan (1996);
5. Considering and, if thought fit, approving the Shareholder Rights Plan; and
6. Considering such other matters as may properly come before the Meeting or any adjournment thereof.

Only holders of record of IPL Shares at the close of business on March 15, 1996 will be entitled to vote in respect of the matters to be voted on at the Meeting or any adjournment thereof, except that a person who has acquired IPL Shares subsequent to such record date will be entitled to vote such shares upon establishing that such person owns such shares and upon making a written request to that effect, not later than 10 days preceding the date of the Meeting, to the office of the Corporate Secretary of IPL at the registered office of the Corporation at Suite 2900, Canada Trust Tower, 421-7th Avenue S.W., Calgary, Alberta, T2P 4K9.

Your vote is important regardless of the number of IPL Shares you own. Shareholders who are unable to attend the Meeting in person are asked to **complete, sign, date and return the enclosed form of proxy** relating to the IPL Shares held by them in the postpaid envelope provided for that purpose for use at the Meeting.

To be used at the Meeting, a proxy must be deposited with The R-M Trust Company at one of its principal corporate trust offices in Calgary, Halifax, Montreal, Regina, Toronto, Vancouver or Winnipeg, the addresses of which are listed on the back of the Circular, at any time up to 4:00 p.m. (local time) on the last business day preceding the day of the Meeting (or any adjournment of the Meeting) or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or on the day of any adjournment of the Meeting.

DATED at Calgary, Alberta, this 14th day of March, 1996.

By Order of the Board

A handwritten signature in dark ink, appearing to read 'Mel F. Belich', with a long horizontal stroke extending to the right.

MEL F. BELICH, Q.C.
Senior Vice President, General Counsel
& Corporate Secretary

IPL ENERGY INC. MANAGEMENT INFORMATION CIRCULAR

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IPL ENERGY INC.
MANAGEMENT INFORMATION CIRCULAR
GENERAL INFORMATION

This Management Information Circular (the "Circular") is furnished in connection with the solicitation of proxies by and on behalf of the Management of IPL Energy Inc. ("IPL" or the "Corporation") and its Board of Directors (the "Board"). The accompanying form of proxy ("Proxy Form") is for use at the Annual and Special Meeting of the Shareholders to be held on Thursday, May 2, 1996 and at any adjournment thereof (the "Meeting").

All dollar amounts set forth in this Circular are in Canadian dollars, unless otherwise indicated.

It is anticipated that this Circular and the accompanying Proxy Form will be mailed to the Shareholders on or about March 22, 1996. Unless otherwise stated, information contained in this Circular is given as at March 14, 1996. The principal executive and registered office of the Corporation is located at Suite 2900, Canada Trust Tower, 421 – 7th Avenue S.W., Calgary, Alberta, T2P 4K9, and the Corporation's telephone number is (403) 231-3900. The solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by employees of the Corporation (see "Solicitation of Proxies").

ANNUAL AND SPECIAL MEETING BUSINESS
SHARE CAPITAL AND PRINCIPAL HOLDERS THEREOF

The authorized share capital of IPL consists of an unlimited number of common shares (the "IPL Shares") and an unlimited number of preference shares. As at March 14, 1996, IPL had issued and outstanding 61,108,936 IPL Shares held by approximately 8,902 holders of record. No preference shares have been issued. Each IPL Share entitles the holder thereof to one vote at the Meeting. Holders of record of IPL Shares at the close of business on March 15, 1996 will be entitled to vote at the Meeting.

There is no single holder known to the Corporation, who beneficially owns, directly or indirectly, or exercises control or direction over, in excess of 5% of the outstanding IPL Shares.

BOARD OF DIRECTORS AND BOARD COMMITTEES

As at the date of this Circular, the current Directors of the Corporation are: J. Lorne Braithwaite; William A. Dimma; E. Susan Evans; F. William Fitzpatrick; Richard L. George; Louis D. Hyndman; Brian F. MacNeill; H. Gordon MacNeill; Robert W. Martin; Earl H. Orser; David E. Powell and Donald J. Taylor.

IPL does not have an executive committee of its Board of Directors. There were 13 meetings of the Board of Directors in 1995 and 7 meetings in 1994.

IPL is required by law to have an Audit Committee. The Chairman of the Audit Committee is E.H. Orser and the other members are J.L. Braithwaite, F.W. Fitzpatrick and R.W. Martin. The principal function of the Audit Committee is to review IPL's financial statements and recommend their approval or otherwise to the Board of Directors.

IPL has a Safety and Environment Committee of which W.A. Dimma is Chairman and the other members are L.D. Hyndman, D.E. Powell and D.J. Taylor. The principal functions of the Safety and Environment Committee are to monitor and make recommendations with respect to the safety and environment policies, practices and procedures of IPL and its subsidiaries.

IPL has a Governance Committee of which E.H. Orser is Chairman and other members are J.L. Braithwaite and H.G. MacNeill. The principal function of the Governance Committee is to review and make recommendations regarding policies and procedures relating to the governance of the Corporation by the Board of Directors.

IPL also has a Compensation Committee (see "Composition of the Compensation Committee").

ELECTION OF DIRECTORS

The Articles of the Corporation provide that the number of its Directors shall be such number, neither more than 15 nor less than 1, as the Board of Directors may from time to time determine. IPL does not have a nominating committee. The Board of Directors, by resolution dated February 7, 1996, has established the size of the Board of Directors at 12 Directors, and proposes to reduce the size of the Board to 10 Directors, effective May 2, 1996, on the election of Directors by shareholders at the Meeting.

Individuals Proposed To Be Nominated

The following are the names of the 10 individuals proposed to be nominated for election as Directors (all of whom have consented to stand for election) at the Meeting, as at the date of this Circular. The ages, other positions and offices with IPL, the present principal occupation and the principal occupations during the five preceding years, the year in which each was first elected a Director and the number of IPL Shares beneficially owned or over which control or direction is exercised, by each of them, as at March 14, 1996 is set out below. All such persons are Canadian citizens other than Richard L. George who is an American citizen. Each Director elected will hold office as a Director of IPL from the date of the Meeting until the close of the next annual meeting of Shareholders or until his or her successor is duly elected, unless that Director's office is vacated.

<u>Name, Age and Principal Occupation or Employment</u>	<u>Positions Held With the Corporation</u>	<u>Year First Became a Director</u>	<u>IPL Shares⁽²⁾</u>
J. LORNE BRAITHWAITE, 54 President & Chief Executive Officer, Cambridge Shopping Centres Limited (developer and manager of regional retail shopping malls in Canada).	Director	1989 ⁽¹⁾	100
WILLIAM A. DIMMA, 67 Company Director; prior to 1994, Deputy Chairman and Director, Royal LePage Limited (real estate and management services).	Director	1984 ⁽¹⁾	100
E. SUSAN EVANS, 50 Company Director; prior to August, 1993, Vice President Law and Corporate Secretary of Encor Inc. (oil and gas exploration company).	Director	1996	100
F. WILLIAM FITZPATRICK, 63 Company Director.	Director	1984 ⁽¹⁾	2,000
RICHARD L. GEORGE, 45 President and Chief Executive Officer of Suncor Inc. (integrated oil and gas company) ⁽³⁾ .	Director	1996	200
LOUIS D. HYNDMAN, 60 Senior Partner, Field & Field Perraton, Barristers and Solicitors.	Director	1993	100
BRIAN F. MACNEILL, 56 President & Chief Executive Officer of the Corporation since 1992; Chairman & Chief Executive Officer of Interprovincial Pipe Line Inc. since 1994; prior thereto, President & Chief Executive Officer of Interprovincial Pipe Line Inc. since 1991.	Director, President & Chief Executive Officer	1991 ⁽¹⁾	51,193 ⁽⁴⁾

<u>Name, Age and Principal Occupation or Employment</u>	<u>Positions Held With the Corporation</u>	<u>Year First Became a Director</u>	<u>IPL Shares⁽²⁾</u>
ROBERT W. MARTIN, 59 Chairman of Silcorp Limited (convenience stores) since 1993; Company Director from April, 1992 to 1993; prior to April, 1992, President and Chief Executive Officer, The Consumers' Gas Company Ltd. (natural gas distribution) ⁽³⁾ .	Director	1992 ⁽¹⁾	1,000
EARL H. ORSER, 67 Chairman, Spar Aerospace Limited and Honorary Chairman, London Life Insurance Company since 1994; prior thereto, Chairman, London Life Insurance Company ⁽³⁾ .	Director	1984 ⁽¹⁾	1,000
DONALD J. TAYLOR, 60 Company Director.	Director	1979 ⁽¹⁾	450

(1) Indicates the date on which the individual became a director of Interprovincial Pipe Line Inc., the predecessor parent and now a wholly-owned subsidiary of the Corporation.

(2) Each nominee for re-election as a Director has advised that he or she has sole voting and investment power as to IPL Shares beneficially owned. No nominee beneficially owns 1% or more of the outstanding IPL Shares. Information as to IPL Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of IPL, has been furnished by the respective persons.

(3) Prior thereto in senior management or executive capacities with that company or its affiliates.

(4) Includes authorized but unissued IPL Shares subject to currently exercisable options, which options do not provide voting rights until exercised.

Each of the persons named in the above table was elected a Director of the Corporation by a vote of Shareholders at the annual meeting held on May 4, 1995, other than E. Susan Evans and Richard L. George who were appointed Directors on March 1, 1996.

There is no family relationship between any of the current Directors or the individuals proposed to be nominated for election as Directors of IPL.

Unless specified in a Proxy Form that the IPL Shares represented by the proxy shall be withheld from voting for the election of one or more Directors, it is the intention of the persons designated in the enclosed Proxy Form to vote for the election of the proposed nominees listed, all of whom are now Directors of IPL.

In the event that any vacancies occur in the slate of management nominees, the discretionary authority conferred by the proxies appointing the nominees designated in the enclosed Proxy Form will be exercised to vote the IPL Shares represented by such proxies for the election of any other person or persons nominated by management. The Corporation has no reason to anticipate any such occurrence.

REMUNERATION OF DIRECTORS

Directors' fees are paid only to Directors who are not officers of the Corporation other than the Chairman of the Board of Directors. Each Director, other than B.F. MacNeill, who is an officer of IPL, and E.S. Evans and R.L. George, who were appointed Directors on March 1, 1996, was paid an annual fee of \$12,000 for service as a Director in 1995, and fees of \$1,000 for each Directors' and committee meeting attended. Committee chairmen each received an additional annual fee of \$2,000. The Chairman of the Board of Directors, H.G. MacNeill, who is not standing for re-election, received an additional annual fee of \$35,000.

The following table sets forth the compensation paid to all Directors and all officers, as a group, in the year ended December 31, 1995:

	Fees	Remuneration	Total
REMUNERATION OF DIRECTORS AS DIRECTORS..... Number of Directors: 10 Body Corporate incurring expense: <i>IPL Energy Inc.</i>	\$ 298,000	\$ —	\$ 298,000
REMUNERATION OF OFFICERS AS OFFICERS ⁽¹⁾ Number of Officers: 11 ⁽²⁾ Body Corporate incurring expense: <i>IPL Energy Inc.</i> ⁽³⁾	—	\$3,693,000	\$3,693,000
Total.....	\$298,000	\$3,693,000	\$3,991,000

(1) Remuneration of officers as reported in this table consists of salaries and direct cash compensation.

(2) Includes the ten current executive officers, two of whom continue as Interprovincial Pipe Line Inc. ("Interprovincial") officers, and excludes the one non-executive officer of the Corporation, the Chairman of the Board.

(3) Other than two officers who are paid by The Consumers' Gas Company Ltd., one who is paid by Interprovincial, and one who is paid by Lakehead Pipe Line Company, Inc.

All dollar amounts in the table above are expressed in Canadian dollars whether paid in Canadian dollars or United States dollars.

As of December 31, 1995, there were outstanding options to purchase 656,130 IPL Shares, of which options to purchase 357,240 IPL Shares were held by Directors and officers of the Corporation as a group.

Effective January 1, 1996, the Board of Directors of the Corporation has implemented a new Director compensation system, following the recommendation of the Governance Committee, in consultation with an external independent consultant.

For membership on the Board of Directors and on Committees of the Board, Directors are paid retainer and meeting fees. The Board membership retainer consists of the stock equivalent in IPL Shares, having a value based on the weighted average of the trading price of IPL Shares on The Toronto Stock Exchange for the five trading days immediately preceding the date of payment (the "Stock Equivalent"), of \$3,000 and \$12,000 cash annually. Meeting fees per Board meeting are \$1,000. In addition, payment of one-half of a meeting fee for travel by a Director from out-of-province to the meeting site is paid. Committee membership retainers consist of the Stock Equivalent of \$3,000 annually as well as a meeting fee of \$1,000 cash per meeting. The Chair of the Board is paid an annual retainer of \$75,000 and the Chair of each Committee is paid an annual retainer of \$2,000. The Board has the discretion to determine annually the guidelines setting forth the level of IPL Share ownership in respect of the voluntary commitment by each Director to a minimum level of ownership of IPL Shares to be achieved within a designated period. In order to assist each Director with the commitment, the Corporation offers a one time interest free loan to a maximum of \$50,000 and provides a retention bonus stock grant to each Director of one IPL Share for each five IPL Shares held by the Director for a minimum period of three years.

The purpose of the new Director compensation system is to provide a compensation plan for Directors of the Corporation which reflects the responsibilities, commitments and risks accompanying board membership in a manner which is consistent with and will advance the interests of the Corporation and total return to shareholders.

EXECUTIVE COMPENSATION

The following table sets forth the annual, long-term and other compensation paid or granted by the Corporation and its subsidiaries for the three financial years ended December 31, 1995 to the individuals who were, at December 31, 1995, the President & Chief Executive Officer and the four other executive officers of the Corporation and its subsidiaries with the highest salary and bonus compensation in the 1995 financial year (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE⁽¹⁾

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$) ⁽²⁾	Other Annual Compensation (\$) ⁽³⁾	Awards		Payouts	
					Options/SARs Granted (#) ⁽⁴⁾	Restricted Shares/Unit Value (\$) ⁽⁵⁾	LTIP Payouts (\$)	
B.F. MacNeill President & Chief Executive Officer IPL Energy Inc.	1995 1994 1993	450,000 375,000 325,000	305,000 180,000 165,000	— — —	28,000 22,000 12,000	— — —	— — —	22,500 ⁽⁶⁾ 18,750 ⁽⁶⁾ 16,250 ⁽⁶⁾
R.D. Munkley President & Chief Executive Officer The Consumers' Gas Company Ltd.	1995 1994 (July 1/94 Dec. 31/94)	300,000 130,000	115,000 100,000	— —	5,000 5,000	39,984 ⁽⁷⁾ —	— —	12,998 ⁽⁸⁾ 3,250 ⁽⁸⁾
P.D. Daniel President & Chief Operating Officer Interprovincial Pipe Line Inc.	1995 1994 1993	240,000 202,667 168,000	175,000 63,000 50,000	— — —	10,000 8,000 5,000	— — —	— — —	12,000 ⁽⁶⁾ 10,134 ⁽⁶⁾ 8,400 ⁽⁶⁾
D.P. Truswell Senior Vice President & Chief Financial Officer IPL Energy Inc.	1995 1994 1993	235,000 206,331 179,000	150,000 66,000 65,000	— — —	10,000 8,000 5,000	— — —	— — —	11,750 ⁽⁶⁾ 10,317 ⁽⁶⁾ 8,950 ⁽⁶⁾
R.H.B. Sangster ⁽⁹⁾ President & Chief Operating Officer Lakehead Pipe Line Company, Inc.	1995 1994 1993	206,250* 196,000* 204,029	75,000* 55,000* 61,308	— — —	9,000 7,500 5,000	— — —	— — —	7,500* 9,240* 10,290

* Expressed in United States dollars.

- (1) All dollar amounts refer to Canadian dollars except those amounts identified by an asterisk (*), which are expressed in United States dollars. The noon rate of exchange for the conversion of United States dollars into Canadian dollars on December 29, 1995 as reported by the Bank of Canada was \$1.3652 (Cdn. \$1.00 = US \$0.7325).
- (2) Approximately one-half of the bonus figure is included in the calculation of pension entitlement for each individual. This portion relates to the bonus awarded in respect of regular activities relating to usual business operations. The balance relates to special activities which do not qualify for pension entitlement.
- (3) The value of each Named Executive Officer's perquisites and other personal benefits did not exceed the lesser of (i) \$50,000 and (ii) 10% of the Named Executive Officer's total annual salary and bonus.
- (4) Each option entitles the holder to acquire the indicated number of IPL Shares. Particulars of the stock options are provided under the heading "Stock Options".
- (5) The value of Restricted Stock Units ("RSU's") awarded is based on the closing price of the common shares of The Consumers' Gas Company Ltd. ("Consumers Gas") on the date of the grants of the related RSU's in the case of the 1995 and 1994 grants and on an extrapolation from the closing price of Instalment Receipts of Consumers Gas on the date of such grants in the case of 1993 grants.

Date of Grant	Value Per Unit
February 2, 1995	\$16.00
July 1, 1994	17.00
February 4, 1993	14.75

- (6) The Corporation makes contributions under the Employee Savings Plan, a savings plan to which Canadian employees of IPL may contribute up to 5% of their base salary, with employee contributions matched by the Corporation. Employees may select from among five designated investment alternatives, including IPL Shares which are purchased at market values.
- (7) The number of RSU's awarded, 2,499, was based on a percentage of R.D. Munkley's base salary divided by the average price of a common share of Consumers Gas during its fiscal year ended September 30, 1994, being \$18.01 calculated on the basis of the actual trading prices from October 1, 1993 to September 30, 1994. See "Report on Executive Compensation — Restricted Stock Unit Plan". As at December 31, 1995, R.D. Munkley held 6,565 RSU's having an aggregate value of \$131,300.
- (8) Represented in part by value added to previously granted RSU's, from "reinvestment" of dividend equivalents and in part by the Consumers Gas Stock Purchase and Savings Plan under which all employees of Consumers Gas, including R.D. Munkley, may make contributions of up to 5% of base salary with 50% of the employee's contribution being matched by Consumers Gas. Employees may elect to invest their contributions to the Stock Purchase and Savings Plan in Consumers Gas shares or in an interest bearing account or in a combination of the foregoing. Contributions made by Consumers Gas are invested in common shares of Consumers Gas. There is a three year period until payout of RSU's.
- (9) Mr. R.H.B. Sangster was employed by IPL prior to his transfer to Lakehead Pipe Line Company, Inc. on April 1, 1993. The amounts under "All Other Compensation" reflects the Corporation's contributions to the Employee Savings Plan before that date and Lakehead's contributions to its 401 K Plan after that date. The salary and bonus in 1993 as well as contributions to the 401 K Plan in 1993 are reflected in Canadian dollar equivalents.

COMPOSITION OF THE COMPENSATION COMMITTEE

The following individuals served as members of the Corporation's Compensation Committee during the financial year ended December 31, 1995: H.G. MacNeill (Chairman), W.A. Dimma and R.W. Martin. Each member served for the entire fiscal year. No member is or has been an officer, former officer or employee of the Corporation or any of its subsidiaries or has had any relationship with the Corporation except as a Director, other than H.G. MacNeill who is a non-executive holding the office of Chairman of the Board. No member of the Compensation Committee was indebted to the Corporation or any of its subsidiaries or had any material interest, or has any associate with a material interest, direct or indirect, in any actual or proposed transaction in the 1995 fiscal year that materially affected or would materially affect the Corporation or any of its subsidiaries.

REPORT ON EXECUTIVE COMPENSATION

The Corporation's executive compensation program is administered by the Compensation Committee (the "Committee") comprised of three non-employee members of the Board of Directors. As part of its mandate the Committee approves the appointment and remuneration of the Corporation's senior officers, including the Corporation's executive officers named in the Summary Compensation Table. The Committee is also responsible for reviewing the Corporation's compensation policies and guidelines generally. The Committee met three times during the fiscal year ended December 31, 1995. It is the objective of the Committee to ensure that the compensation of senior executives is sufficiently competitive to attract and retain high quality staff and to link incentive compensation to performance and shareholder value. The executive compensation program of the Corporation is comprised of three major components: base salary, a short-term incentive program and a long-term stock option program. The executive compensation program of Consumers Gas includes base salary, an annual incentive plan and a restricted stock unit plan.

Base Salaries

In determining the remuneration of senior officers of the Corporation, the Committee makes use of formal assessments, market comparisons and advice from independent compensation consultants. The Committee gives consideration to the Corporation's long-term interests and financial objectives as well as qualitative aspects of the individual performance and achievements of its senior officers as demonstrated by leadership ability, major project responsibility and contributions to the Corporation's industry and community development.

Salaries for Named Executive Officers are reviewed annually based on corporate and personal performance and on individual levels of responsibility. The Committee submits for the approval of the Board of Directors its recommendation as to the salary of the President & Chief Executive Officer. The Committee considers and, if thought fit, approves salaries recommended by the President & Chief Executive Officer for the other Named Executive Officers of the Corporation. The Management Resources Committee of Consumers Gas determines the annual compensation for R.D. Munkley.

Short-Term Incentive Program

The Corporation has a short-term incentive program known as the "Incentive Compensation Plan" ("ICP"), which is an additional link between executive performance and performance of the Corporation. The opportunity to earn a bonus is directly linked to earnings and to value added to the Corporation. Under the ICP, executives are eligible to receive a cash bonus if financial and operating corporate performance targets established by the Board of Directors are achieved. Each of the Corporation's business units establishes measurable performance targets. Such targets are specific to each unit and are related to a combination of earnings performance criteria and progress made towards long range plan objectives. The amount available for bonuses is limited to a specified percentage of aggregate eligible executives' salaries. Bonuses for the President & Chief Executive Officer are recommended by the Committee for approval by the Board of Directors. Bonuses for the other Named Executive Officers are reviewed by the Committee on the recommendation of the President & Chief Executive Officer based upon the respective individual's contribution to overall results and the achievement of pre-determined qualitative and quantitative objectives. A corresponding determination is made by the Board of Directors of Consumers Gas for R. D. Munkley.

For 1995, total shareholder return (share price appreciation and dividends paid) was 19.4%. For the three year period 1993-1995, total shareholder return was 69.6% and for the five year period 1991-1995 it was 77.1%. On a consolidated corporate basis share performance was in excess of the TSE 300 Composite Index, the TSE Pipelines Index and the TSE Utilities Index by as much as 36% over the past five years. In the opinion of the Committee, ICP payments were warranted and reflected value received by the shareholders.

The ICP will undergo review in 1996 to further refine corporate, business unit and individual contribution performance targets, and weightings of various components of the ICP, to achieve a total compensation position, including base salary and ICP bonus, at the average of the 75th percentile of similar organizations, if all internal and external performance objectives are exceeded.

Long-Term Incentive Plan

The long-term incentive plan (the "Employee Incentive Stock Option Plan (1992)") is intended to focus key employees of the Corporation and its subsidiaries on shareholder value.

Awards of stock options are considered annually by the Committee on the recommendation of the President & Chief Executive Officer and by the Committee alone concerning the President & Chief Executive Officer. Annual awards, rather than infrequent larger awards, are utilized to average the option exercise prices over business cycles. Each option awarded entitles the recipient to acquire a specified number of IPL Shares at an exercise price equal to 100% of the last sale price of the IPL Shares on The Toronto Stock Exchange on the trading day prior to the date of the grant. The number of shares under each stock option granted is determined by the Committee which further considers a target ratio of the current IPL Share price to base compensation, plus individual performance and potential, and the number of existing options held by the proposed recipient.

During 1995, options to acquire 184,400 IPL Shares were awarded to 41 eligible employees including the Named Executive Officers.

Restricted Stock Unit Plan

The purpose of the Restricted Stock Unit Plan (the "Plan") of Consumers Gas is to provide executives with a competitive long term capital accumulation opportunity and to encourage and facilitate the accumulation and retention of the shares of Consumers Gas by senior management of Consumers Gas. Under the Plan, the Consumers Gas Management Resources Committee recommends to the Board of Directors of Consumers Gas an annual grant of units related to a particular executive's position and the ability of the executive to contribute to the profitability of Consumers Gas. As a general guideline, the number of units awarded is equal to approximately 15% of the executive's base salary divided by the average price of a common share of Consumers Gas during the previous fiscal year. The Plan was amended as at September 7, 1995 and future grants will be based on the average price of a common share of Consumers Gas during the last month of its fiscal year. The units also carry the right to receive dividend equivalents in the form of additional Restricted Stock Units and these additional units mature contemporaneously with the original grant of units. Up to 150,000 of Consumers Gas common shares can be issued under the Plan.

Units mature on the third anniversary of the date of grant. On maturity, treasury shares of Consumers Gas are issued equal to one half of the number of units. At the discretion of the executive, such shares may be held by the

trustee of the Plan or delivered to the participating executive; the remaining one-half of the units are valued using the average market price of Consumers Gas shares on the day prior to maturity and the cash is delivered to the participating executive to be utilized to offset the income tax liability.

Compensation of the President & Chief Executive Officer

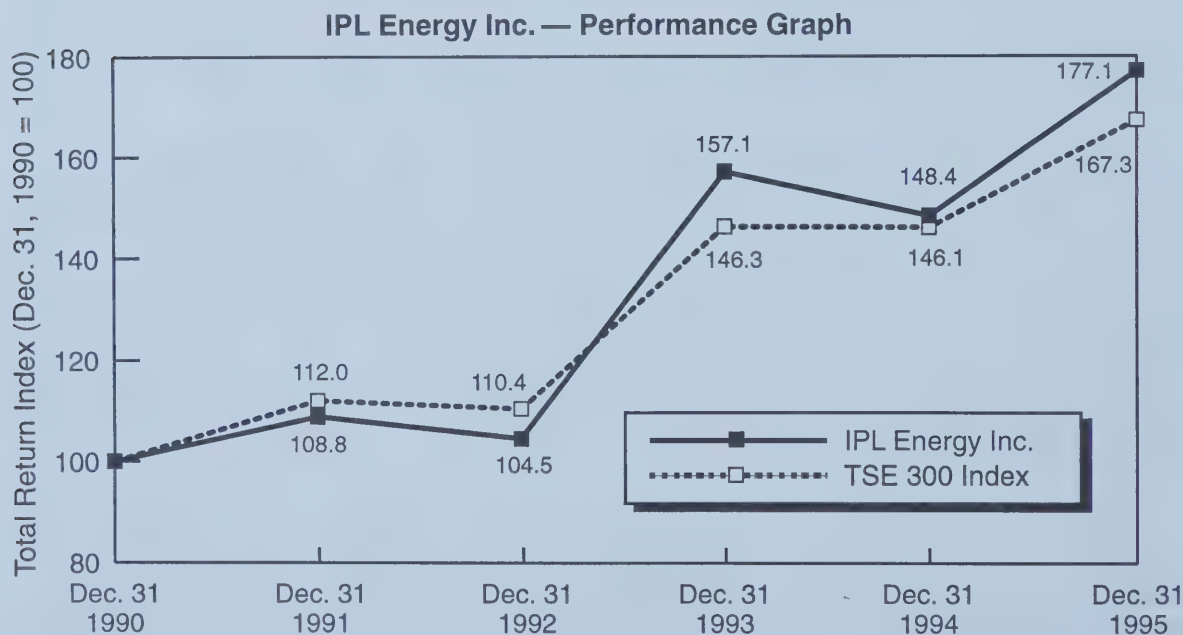
The compensation paid to the President & Chief Executive Officer for 1995 was determined by the Board on the recommendation of the Committee in accordance with the executive compensation program. The annual salary was within established parameters for the position. The bonus was determined by applying the principles outlined above and recognizes the significant achievement of a number of strategic objectives during a period of intense activity. The award of stock options accords with the provision of the related plan.

The "Report on Executive Compensation" is presented by the Compensation Committee of the Board of Directors:

H. Gordon MacNeill, Chairman
William A. Dimma
Robert W. Martin

PERFORMANCE GRAPH

The following chart compares IPL's five-year cumulative total shareholder return (assuming reinvestment of dividends) for \$100 invested in IPL Shares on December 31, 1990 with the cumulative total return of the TSE 300 Composite Index for the five most recently completed financial years.



EMPLOYMENT CONTRACTS

The Corporation has entered into employment contracts with each Named Executive Officer of the Corporation other than R.D. Munkley. Each contract provides that should the Named Executive Officer experience involuntary termination of employment (other than for cause) or constructive dismissal, he will be paid 200% of the sum of: (i) twelve times the gross monthly salary paid to the executive in the last full month of employment; and (ii) the gross amount of the last bonus paid; and will be provided a two year extension of certain employee benefits specified in the contract. For these purposes, unless consented to by the executive, "constructive dismissal" is deemed to occur when the executive ceases to be an officer of the Corporation or an officer of a successor to a material portion of the assets of the Corporation; incurs a material decrease in title, position, responsibility, powers or reporting relationships; or incurs a reduction in annual salary, excluding bonuses.

STOCK OPTIONS

The two tables which follow set forth information concerning options under the Employee Incentive Stock Option Plan (1992) relating to the Named Executive Officers during the financial year ended December 31, 1995.

OPTION/SAR GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR⁽¹⁾

Name	Shares Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in 1995	Exercise or Base Price (\$/Share)	Market Value of Shares Underlying Options/SARs at Date of Grant (\$/Share)	Expiration Date
B.F. MacNeill	28,000	15.2	32.75	32.75	November 9, 2005
R.D. Munkley	5,000	2.7	32.75	32.75	November 9, 2005
P.D. Daniel	10,000	5.4	32.75	32.75	November 9, 2005
D.P. Truswell	10,000	5.4	32.75	32.75	November 9, 2005
R.H.B. Sangster	9,000	4.9	32.75	32.75	November 9, 2005

- (1) The options noted above were each granted on November 9, 1995. The holder may exercise the options to acquire the indicated number of IPL Shares. Each option becomes exercisable as to the first 25% after one year from the date of grant, as to the second 25% after two years from the date of grant, as to the third 25% after three years from the date of grant and as to the final 25% after four years from the date of grant.

AGGREGATED OPTION/SAR EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION/SAR VALUES

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs At Fiscal Year-End ⁽¹⁾		Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End ⁽²⁾	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
B.F. MacNeill	—	—	42,300	60,900	278,975	117,497
R.D. Munkley	—	—	1,250	8,750	3,593	10,781
P.D. Daniel	—	—	17,800	22,400	120,752	43,031
D.P. Truswell	—	—	10,240	22,400	54,278	43,031
R.H.B. Sangster	1,000	12,955 ⁽³⁾	18,675	21,025	132,717	41,952

- (1) Options issued in financial years 1986 through 1995 and not exercised on or before December 31, 1995, in respect of indicated numbers of IPL Shares.

- (2) The difference between the closing price of IPL Shares on The Toronto Stock Exchange on December 29, 1995 (\$31.875) and the exercise or base price of unexercised options to acquire IPL Shares.

- (3) Includes \$9,950.00 in associated Dividend Equivalent Rights.

PENSION PLAN TABLE

Remuneration ⁽¹⁾	Years of Credited Service					
	10	15	20	25	30	35
\$100,000	\$16,000	\$ 24,000	\$ 32,000	\$ 40,000	\$ 48,000	\$ 56,000
125,000	20,000	30,000	40,000	50,000	60,000	70,000
150,000	24,000	36,000	48,000	60,000	72,000	84,000
200,000	32,000	48,000	64,000	80,000	96,000	112,000
250,000	40,000	60,000	80,000	100,000	120,000	140,000
300,000	48,000	72,000	96,000	120,000	144,000	168,000
350,000	56,000	84,000	112,000	140,000	168,000	196,000
400,000	64,000	96,000	128,000	160,000	192,000	224,000
450,000	72,000	108,000	144,000	180,000	216,000	252,000
500,000	80,000	120,000	160,000	200,000	240,000	280,000
550,000	88,000	132,000	176,000	220,000	264,000	308,000
600,000	96,000	144,000	192,000	240,000	288,000	336,000

(1) "Remuneration" refers to annual salary and that portion of annual bonus awarded in respect of performance of regular duties relating to usual business operations.

The Pension Plan Table specifies the benefits payable under the Corporation's trustee non-contributory registered pension plans, one applicable for Canada and one for the United States (together the "Pension Plan"), which covers all eligible employees including the Named Executive Officers of the Corporation except R.D. Munkley who is covered by the Pension Plan of Consumers Gas, described separately below. The Pension Plan provides employees in Canada a yearly pension payable after age 60 in the normal form (50% joint and last survivor) equal to (a) 1.6% of the sum of (i) the average of the participant's highest annual salary during three consecutive years out of the last ten of credited service and (ii) the average of that portion of the participant's three highest annual performance bonus payments in respect of the last five years of credited service which may be approved for inclusion in the final average earnings by the Compensation Committee, from time to time, (b) multiplied by the number of credited years of service. This pension is offset, after age 60, by 50% of the participant's Canada Pension Plan ("CPP") benefit prorated by years in which the participant has both credited service and CPP coverage and is further reduced, unless the participant is at least 55 years of age with 30 or more years of credited service, by 5% per year for each year retirement precedes age 60. For employees in the United States, the only material difference is the integration of benefits with U.S. Social Security benefits rather than CPP benefits.

Assuming the Named Executive Officers (other than Mr. Munkley) remain in the employ of the Corporation until the normal retirement age of 65, then upon retirement at that age Mr. MacNeill will have attained 34.4 years of credited service, Mr. Daniel will have attained 28.3 years of credited service, Mr. Truswell will have attained 39.6 years of credited service, and Mr. Sangster will have attained 38.5 years of credited service.

CONSUMERS GAS PENSION PLAN

General

R.D. Munkley participates in the registered contributory defined benefit pension plan of Consumers Gas (the "CG Basic Plan") which covers all Consumers Gas employees. Mr. Munkley has also been designated to participate in the non-contributory Supplementary Executive Retirement Plan of Consumers Gas ("SERP") in addition to the CG Basic Plan. The benefit chart set out below illustrates the total pension entitlements inclusive of the CG Basic Plan and SERP entitlements, and assumes retirement after the eligibility requirements for an unreduced pension have been satisfied. CG Basic Plan and SERP benefits are automatically indexed annually by 55% of the increase in the Consumer Price Index to a maximum of 5%.

CG Basic Plan members must contribute 5% of pensionable earnings, less 1.8% of pensionable earnings which are subject to CPP contributions, subject to a maximum annual contribution of \$3,500. Credited service and contributions cease after 35 years.

Supplementary Executive Retirement Plan

Benefits are calculated on the average of the best 60 consecutive months' earnings in the last 10 years prior to retirement. The pension is payable for the member's lifetime with a minimum guarantee of 60 monthly payments. Other optional forms are available on an actuarially equivalent basis. An unreduced pension is payable after age 58 provided the aggregate of the member's age and years of service exceeds 90, or after age 62 and completion of 20 years of service.

For purposes of computing the total retirement benefit of R.D. Munkley, who is a member of SERP, credited service as of December 31, 1995 was 24.6 years.

CONSUMERS GAS PENSION PLAN TABLE

Remuneration ⁽¹⁾	Years of Credited Service				
	15	20	25	30	35
\$125,000	\$ 37,500	\$ 50,000	\$ 62,500	\$ 75,000	\$ 87,500
150,000	45,000	60,000	75,000	90,000	105,000
175,000	52,500	70,000	87,500	105,000	122,500
200,000	60,000	80,000	100,000	120,000	140,000
225,000	67,500	90,000	112,500	135,000	157,500
250,000	75,000	100,000	125,000	150,000	175,000
275,000	82,500	110,000	137,500	165,000	192,500
300,000	90,000	120,000	150,000	180,000	210,000
400,000	120,000	160,000	200,000	240,000	280,000

(1) "Remuneration" refers to annual salary plus 50% of bonuses for purposes of the Consumers Gas Basic Plan and SERP.

INDEBTEDNESS OF DIRECTORS, EXECUTIVES AND SENIOR OFFICERS

Other than routine indebtedness, no current or former director or officer of the Corporation or its subsidiaries, and no associate of any such person, was indebted to the Corporation or any of its subsidiaries at any time since January 1, 1995.

LIABILITY INSURANCE OF DIRECTORS AND OFFICERS

The Corporation maintains insurance for the benefit of its Directors and officers, and the Directors and officers of its subsidiaries, as a group, in respect of the performance by them of the duties of their offices. The amount of primary insurance coverage is U.S. \$25,000,000, with a U.S. \$1,000,000 deductible for each claim. In addition, IPL maintains a first level of excess insurance for such purpose in the amount of U.S. \$15,000,000 and a second level of excess insurance in the amount of Cdn. \$60,000,000. The insurance premiums, all paid by the Corporation, were Cdn. \$155,713 for the primary coverage and Cdn. \$41,500 for the first level excess coverage, in both cases for the 12 month period ended September 30, 1996, and Cdn. \$69,639 for the second level coverage for the 12 month period ended September 30, 1996.

APPOINTMENT OF AUDITORS

Price Waterhouse have been auditors of Interprovincial Pipe Line Inc. since 1949 and of the Corporation since 1992, and their address is Suite 1200, 425-1st Street S.W., Calgary, Alberta. **Unless specified in a Proxy Form that the IPL Shares represented by the proxy shall be withheld from voting for the appointment of auditors, it is the intention of the persons designated in the enclosed Proxy Form to vote for the re-appointment of Price Waterhouse as auditors of the Corporation to hold office until the close of the next Annual Meeting of Shareholders.** Representatives of Price Waterhouse are expected to be present at the Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

FINANCIAL STATEMENTS

The Directors will place before the Meeting, the Directors' Report to Shareholders and the Consolidated Financial Statements and Auditors' Report for the financial year ended December 31, 1995. The 1995 Annual Report to Shareholders, which contains the Consolidated Financial Statements and the Auditors' Report, are included in the general mailing of this Circular to Shareholders which is expected to be made on or about March 22, 1996. Additional copies of the Annual Report are available from the office of the Corporate Secretary of the Corporation.

PARTICULARS OF OTHER MATTERS TO BE ACTED UPON

INCENTIVE STOCK OPTION PLAN (1996)

Shareholders will be asked to approve by a majority of the votes cast at the Meeting, a resolution, the text of which is set forth in Appendix "A" to this Circular (the "1996 Plan Resolution"), approving the Incentive Stock Option Plan (1996) (the "1996 Plan"), to take effect from the date of Shareholder approval and thereafter to be in effect until December 31, 2000. The purpose of the 1996 Plan is to provide effective incentives to full-time key employees of the Corporation and its subsidiaries (for the purposes of this section, collectively the "Corporation") and to reward such employees in relation to the long-term performance and growth of the Corporation and the total return to Shareholders.

Summary

Features of the 1996 Plan include:

- (1) A maximum of 2,000,000 IPL Shares will be reserved for issuance under the 1996 Plan. Stock options ("options") granted under the 1996 Plan will include rights to Restricted Stock Units ("RSU's"), and stock appreciation rights ("rights") will also be available.
- (2) The 1996 Plan will be administered by the Compensation Committee (the "Committee") of the Board. The Committee will, subject to Board approval, designate those employees of the Corporation to whom options and/or rights will be granted and upon what terms. Directors who are not full-time employees of the Corporation, and members of the Committee, are not eligible to participate in the 1996 Plan.
- (3) Options and/or rights will have a term of ten years or less and will be subject to earlier termination if the holder leaves the employ of the Corporation. An option and/or right will only become exercisable after one year of continued employment following its grant, and only then in such instalments as the Committee

may determine. In no case will an option be granted at an exercise price less than 100% of the last sale price of IPL Shares on The Toronto Stock Exchange on the trading day prior to the date of the grant.

- (4) Incentive stock options, within the meaning and requirements of the United States Internal Revenue Code, may be granted to designated employees of the Corporation's United States subsidiaries at an exercise price of not less than 100% of the last sale price of IPL Shares on The Toronto Stock Exchange on the trading day prior to the date of the grant. Such options may be afforded favourable tax treatment under United States law.
- (5) To the extent dividends are paid on the IPL Shares during the term of any unexercised option, the holder of such option shall be awarded RSU's, being the IPL Share equivalent (expressed in shares) of the amount of dividends that such holder would have received on the number of IPL Shares in respect of which he or she holds unexercised options as at the record date for payment of the dividend, together with the total number of RSU's then standing to the credit of such holder. RSU's shall mature after three years, and shall then be paid to the holder as to half in cash and the other half in IPL Shares. Any IPL Shares received on maturity may be lodged with a custodian for a further three years, and entitle the holder to participate in the Corporation's Dividend Reinvestment and Share Purchase Plan.
- (6) Rights may be granted in connection with an option. The number of IPL Shares covered by such rights will not exceed the number of IPL Shares available to the employee under his or her option. Generally, rights will be exercisable at such times and in such amounts as the underlying options. The rights entitle the holder to surrender all or part of the underlying and unexercised option and receive in exchange the amount by which the then aggregate fair market value of the IPL Shares covered by the option (based on the trading price of the IPL Shares on The Toronto Stock Exchange) exceeds the aggregate option exercise price, to a maximum of 100% of the exercise price.
- (7) No options, rights or RSU's granted under the 1996 Plan are transferable by the holder other than by will or according to the laws governing descent and distribution.
- (8) The 1996 Plan contains provisions for changes in the number of options, rights and RSU's granted and available in certain circumstances where it is necessary to prevent dilution; provisions to protect the holders of options, rights and RSU's in the event of reorganization of the Corporation; and limited provisions for amendment of the 1996 Plan by the Board.

Recommendation of the Board

Unless specified in a Proxy Form that the IPL Shares represented by the Proxy Form shall be voted against the 1996 Plan Resolution, it is the intention of the persons designated in the enclosed Proxy Form to vote for the 1996 Plan Resolution.

SHAREHOLDER RIGHTS PLAN

Shareholders will be asked at the Meeting to consider and, if deemed advisable, to approve, by a simple majority of votes cast at the Meeting, a resolution, the text of which is set forth in Appendix "A" to this Circular (the "Shareholder Plan Resolution"), to ratify the adoption of the Shareholder Rights Plan (the "Shareholder Plan"). The Shareholder Plan, unanimously adopted by the Board, is contained in an agreement entered into with The R-M Trust Company on November 9, 1995. The full text of the agreement containing the Shareholder Plan is attached to this Circular as Appendix "B". The Shareholder Plan became effective November 9, 1995 and will continue in effect unless the Shareholders do not approve the Shareholder Plan Resolution.

Existing Legislative Framework

In considering whether to adopt the Shareholder Plan, the Board considered the current legislative framework in Canada governing takeover bids. Under provincial securities legislation, a takeover bid generally means an offer to acquire voting or equity shares of a person or persons, where the shares subject to the offer to acquire, together with shares already owned by the bidder and certain related parties thereto, aggregate 20% or more of the outstanding shares.

The existing legislative framework for takeover bids in Canada raises the following concerns for Shareholders:

(a) *Time*

Current legislation permits a takeover bid to expire 21 days after it is initiated. The Board is of the view that this is not sufficient time to permit Shareholders to consider a takeover bid and make a reasoned and unhurried decision.

(b) *Pressure to Tender*

A Shareholder may feel compelled to tender to a takeover bid which the Shareholder considers to be inadequate out of a concern that in failing to do so, the Shareholder may be left with illiquid or minority discounted IPL Shares. This is particularly so in the case of a partial takeover bid for less than all IPL Shares, where the bidder wishes to obtain a control position but does not wish to acquire all of the IPL Shares. The Shareholder Plan provides a Shareholder approval mechanism which is intended to ensure that a Shareholder can separate the decision to tender from the approval or disapproval of a particular takeover bid.

(c) *Unequal Treatment: Full Value*

Shareholders of the Corporation may be vulnerable to discriminatory acquisition tactics because the different securities laws in Canada and the United States, the principal trading markets for IPL Shares, could form the basis for unequal treatment of Shareholders. The Shareholder Plan is intended to address this jurisdictional gap and to ensure equal treatment of Shareholders regardless of country of residence or size of holdings. The Board of Directors was also concerned that a person seeking such control might attempt, among other things, a gradual accumulation of IPL Shares in the open market; the accumulation of a large block of shares in a highly compressed period of time from institutional Shareholders and professional speculators or arbitrageurs; a partial offer that unfairly pressures Shareholders; or an offer for any or all of IPL Shares at what the Board of Directors considers to be less than full and fair value. The Shareholder Plan effectively prohibits the acquisition of more than 20% of the outstanding IPL Shares in such a manner. The Shareholder Plan is designed to encourage any bidder to provide Shareholders with equal treatment in a takeover and full value for their investment.

Summary of the Plan

The following is a summary of the principal terms of the Shareholder Plan which is qualified in its entirety by reference to the text of the Shareholder Plan accompanying this Circular.

Effective Date

The effective date of the Shareholder Plan is November 9, 1995 (the “Effective Date”).

Term

Ten years, subject to ratification by the Shareholders at the Meeting and to reconfirmation by Shareholders at each third annual meeting thereafter.

Shareholder Approval

For the Shareholder Plan to continue in effect following the Meeting, the Shareholder Plan Resolution must be approved by a majority of the votes cast at the Meeting by Shareholders voting in person and by proxy.

Issue of Rights

On the Effective Date, one right (a “Right”) was issued and attached to each IPL Share outstanding and will attach to each IPL Share subsequently issued.

Rights Exercise Privilege

The Rights will separate from the IPL Shares and will be exercisable eight trading days (the “Separation Time”) after a person has acquired, or commences a takeover bid to acquire, 20% or more of the IPL Shares, other than by an acquisition pursuant to a takeover bid permitted by the Shareholder Plan (a “Permitted Bid”). The acquisition by any person (an “Acquiring Person”) of 20% or more of the IPL Shares, other than by way of a Permitted Bid, is referred to as a “Flip-in Event”. Any Rights held by an Acquiring Person will become void upon

the occurrence of a Flip-in Event. Eight trading days after the occurrence of the Flip-in Event, each Right (other than those held by the Acquiring Person), will permit the purchase of \$240 worth of IPL Shares for \$120 (i.e. at a 50% discount).

The issue of the Rights is not initially dilutive. However, upon a Flip-in Event occurring and the Rights separating from the IPL Shares, reported earnings per share on a fully diluted or non-diluted basis may be affected. Holders of Rights not exercising their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for IPL Shares issued from and after the Effective Date and will not be transferable separately from the Shares. From and after the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the IPL Shares.

Permitted Bid Requirements

The requirements for a Permitted Bid include the following:

- (i) the takeover bid must be made by way of a takeover bid circular;
- (ii) the takeover bid must be made to all Shareholders;
- (iii) the takeover bid must be outstanding for a minimum period of 60 days and IPL Shares tendered pursuant to the takeover bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50% of the IPL Shares held by Shareholders other than the bidder, its affiliates and persons acting jointly or in concert (the "Independent Shareholders") have been tendered to the takeover bid and not withdrawn; and
- (iv) if more than 50% of the IPL Shares held by Independent Shareholders are tendered to the takeover bid within the 60 day period, the bidder must make a public announcement of that fact and the takeover bid must remain open for deposits of IPL Shares for an additional 10 business days from the date of such public announcement.

The Shareholder Plan allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 21 days.

Waiver and Redemption

The Board of Directors may, prior to a Flip-in Event, waive the dilutive effects of the Shareholder Plan in respect of a particular Flip-in Event resulting from a takeover bid made by way of a takeover bid circular to all holders of IPL Shares, in which event such waiver would be deemed also to be a waiver in respect of any other Flip-in Event occurring under a takeover bid made by way of takeover bid circular to all holders of IPL Shares. The Board of Directors may also waive the Shareholder Plan in respect of a particular Flip-in Event that has occurred through inadvertence, provided that the Acquiring Person that inadvertently triggered such Flip-in Event reduces its beneficial holdings to less than 20% of the outstanding voting shares of the Corporation within 14 days or such other period as may be specified by the Board of Directors. With the majority consent of Shareholders or Rights holders at any time prior to the occurrence of a Flip-in Event, the Board of Directors may at its option redeem all, but not less than all, of the outstanding Rights at a price of \$0.001 each.

Exemptions for Investment Advisors

Investment advisors (for client accounts) and trust companies (acting in their capacities as trustees and administrators) acquiring greater than 20% of the IPL Shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a takeover bid.

Supplements and Amendments

The Corporation is authorized to make amendments to the Shareholder Plan to correct any clerical or typographical error or, subject to subsequent ratification by Shareholders or Rights holders, to maintain the validity of the Shareholder Plan as a result of changes in law or regulation. Prior to the Meeting, the Corporation is

authorized to amend or supplement the Shareholder Plan as the Board of Directors may in good faith deem necessary or desirable. No such amendments have been made to date. The Corporation will issue a press release relating to any significant amendment made to the Shareholder Plan prior to the Meeting and will advise the Shareholders of any such amendment at the Meeting. Other amendments or supplements to the Shareholder Plan may be made with the prior approval of Shareholders or Rights holders.

Canadian and United States Federal Income Tax Consequences of the Shareholder Plan

Under the *Income Tax Act* (Canada) (the “Tax Act”), while the matter is not free from doubt, the issue of the Rights under the Shareholder Plan may be a taxable benefit which must be included in the income of a recipient. However, no amount must be included in income if the Rights do not have a monetary value at the date of issue. The Corporation considers that the Rights, when issued, will have negligible monetary value, there being only a remote possibility that the Rights will ever be exercised. The holder of Rights may have income or be subject to withholding tax under the Tax Act if the Rights become exercisable, or are exercised or are otherwise disposed of.

In the United States, the conclusion reached by the United States Internal Revenue Service in Revenue Ruling 90-11, to the effect that the adoption of a rights plan by a corporation did not result in the realization of taxable income by the corporation’s shareholders, applies to the Corporation’s adoption of the Shareholder Plan. It is uncertain whether a holder of a Right would recognize taxable income or gain in the event that Rights become exercisable or transferable, but it is likely that taxable income or gain would be recognized in the event that a holder exercises or otherwise disposes of Rights. In each case, the United States income tax consequences would depend upon the circumstances.

This statement is of a general nature only and is not intended to constitute nor should it be construed as legal or tax advice to any particular holder of IPL Shares. Such holders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their Rights, taking into account their own particular circumstances and applicable federal, provincial, territorial, state or foreign legislation.

Eligibility for Investment in Canada

Provided that the Corporation remains a “public corporation” for purposes of the Tax Act at all material times, the Rights will each be qualified investments under that Act for Registered Retirement Savings Plans, Registered Retirement Income Funds and Deferred Profit Sharing Plans. The issue of Rights will not affect the status under the Tax Act of the IPL Shares for such purposes nor will it affect the eligibility of such securities as investments for investors governed by certain Canadian federal and provincial legislation governing insurance companies, trust companies, loan companies and pension plans.

Recommendation of the Board

The Board has determined that the Shareholder Plan is in the best interests of the Corporation and the Shareholders. The Board unanimously recommends that Shareholders vote in favour of the Shareholder Plan Resolution.

Unless specified in a Proxy Form that the IPL Shares represented by the proxy shall be voted against the resolution respecting approval of the Shareholder Plan, it is the intention of the persons designated in the enclosed Proxy Form to vote for the Shareholder Plan resolution.

TRANSFER AGENTS AND REGISTRARS

The Transfer Agent and Registrar of IPL Shares is The R-M Trust Company with corporate trust offices at Calgary, Halifax, Montreal, Regina, Toronto, Vancouver and Winnipeg and the Co-Transfer Agent is Chemical Mellon Shareholder Services, New York, New York (see the list of mailing addresses listed on the back of this Circular).

APPOINTMENT OF PROXY AND DISCRETIONARY AUTHORITY

Shareholders who are unable to be present at the Meeting may vote through the use of proxies. If you are a Shareholder, you should complete, date, sign and return the enclosed Proxy Form. By doing so, you can participate in the Meeting through the person or persons named on the Proxy Form. Please indicate the way you wish to vote on each item of business and your vote will be cast accordingly. **If you do not indicate a preference, the IPL Shares**

represented by the enclosed Proxy Form, if the same is executed in favour of the Management Nominees named in the Proxy Form and deposited as provided in the Notice of Meeting, will be voted in favour of all matters identified in such Notice of Meeting.

DISCRETIONARY AUTHORITY OF PROXY

The enclosed Proxy Form confers discretionary authority upon the proxy nominees with respect to amendments or variations to the matters identified in the Notice of Annual and Special Meeting and other matters which may properly come before the Meeting. The Board of Directors and Management do not know of any such matter which may be presented for consideration at the Meeting. However, if any such matter is presented, the proxy will be voted thereon in accordance with the best judgment of the Management nominees named in the Proxy Form.

To be effective for use at the Meeting, a Proxy Form must be returned to The R-M Trust Company at one of its principal corporate trust offices in Calgary, Halifax, Montreal, Regina, Toronto, Vancouver and Winnipeg at or before 4:00 p.m. (local time) on the last business day preceding the day of the Meeting (or any adjournment of the Meeting), or with the Chairman of the Meeting prior to commencement of the Meeting on the day of the Meeting or the day of any adjournment of the Meeting.

Only holders of IPL Shares of record at the close of business on March 15, 1996 will be entitled to vote in respect of the matters to be voted upon at the Meeting, or any adjournment thereof. In certain circumstances a person who has acquired IPL Shares subsequent to March 15, 1996 may be entitled to vote the IPL Shares, upon establishing that such person owns such IPL Shares, and making a written request to that effect no later than 10 days before the Meeting to the Corporate Secretary of IPL at the registered office of IPL, Suite 2900, Canada Trust Tower, 421-7th Avenue S.W., Calgary, Alberta, T2P 4K9.

With respect to each matter properly before the Meeting, a Shareholder shall be entitled to one vote for each IPL Share registered in the name of such Shareholder.

A Shareholder has the right to appoint a person other than the Management nominees designated on the accompanying Proxy Form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided, or by completing another proxy form. Proxy Forms which appoint persons other than the Management nominees whose names are printed on the Proxy Form should be submitted to the Corporation and the person so appointed should be notified. The person acting as proxy need not be a Shareholder.

On any ballot that may be called for at the Meeting, all IPL Shares in respect of which the person named in a Proxy Form has been appointed to act must be voted, or withheld from voting, or voted against, in accordance with the specification of the Shareholder signing such Proxy Form. If no such specification is made, then the IPL Shares may be voted in accordance with the best judgment of the person named in the Proxy Form.

REVOCATION OF PROXY

Proxies given by Shareholders may be revoked at any time prior to their use, by instrument in writing executed by the Shareholder, or by his or her attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Corporation, Suite 2900, Canada Trust Tower, 421-7th Avenue S.W., Calgary, Alberta, T2P 4K9, at any time up to and including 4:00 p.m. (local time) on the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, personal attendance at the Meeting.

If the instrument of revocation is deposited with the Chairman on the date of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to the proxy to be revoked.

SOLICITATION OF PROXIES

The cost of this solicitation of proxies will be borne by the Corporation. In addition to solicitation by mail, the officers, Directors and employees of the Corporation may, without additional compensation, solicit proxies personally or by telephone.

CORPORATE GOVERNANCE

In December 1994, The Toronto Stock Exchange Committee on Corporate Governance in Canada issued its report containing guidelines for corporate governance (the "Guidelines"). Subsequently, The Toronto Stock Exchange, and the Montreal Exchange, upon which the IPL Shares are listed, adopted disclosure requirements relating to corporate governance for all listed corporations incorporated in Canada with fiscal years on and after June 30, 1995.

In 1995, the Board of Directors of the Corporation created a committee to examine governance issues and to make recommendations to the Board of Directors. The Governance Committee is generally mandated to be responsible for governance issues and ensures that the Board functions independently of management.

Appendix "C" lists the Guidelines and the Corporation's comments on its alignment with the Guidelines. Although the Guidelines are not requirements and full alignment is not obligatory, the governance practices of the Corporation match significantly with the Guidelines.

SHAREHOLDER PROPOSALS FOR NEXT MEETING

The *Canada Business Corporations Act*, which governs the Corporation, provides that shareholder proposals must be received by February 10, 1997 to be considered for inclusion in the management information circular and the form of proxy for the 1997 annual meeting of Shareholders, which is expected to be held on or about May 1, 1997.

APPROVAL BY THE BOARD OF DIRECTORS

The contents and mailing to Shareholders of this Circular have been approved by the Board of Directors. No person is authorized to give any information or to make any representations in respect of the matters addressed herein other than those contained in this Circular and, if given or made, such information must not be relied upon as having been authorized.

DATED the 14th day of March, 1996.



MEL F. BELICH, Q.C.
Senior Vice President, General Counsel
& Corporate Secretary

CERTIFICATE

The foregoing contains no untrue statement of material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

DATED the 14th day of March, 1996.



BRIAN F. MACNEILL
President & Chief Executive Officer



DEREK P. TRUSWELL
Senior Vice President & Chief Financial Officer

APPENDIX “A”

A. Incentive Stock Option Plan (1996) Resolution

BE IT RESOLVED THAT:

1. The Incentive Stock Option Plan (1996), which is described in the Management Information Circular accompanying the notice of this meeting, be and it is hereby approved; and
2. Any Director or officer of the Corporation, be and is hereby authorized, for and on behalf of the Corporation, to execute and deliver such other documents and instruments and take such other actions as such Director or officer may determine to be necessary or advisable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such documents or instruments and the taking of any such actions.

B. Shareholder Rights Plan Resolution

BE IT RESOLVED THAT:

1. The Shareholder Rights Plan Agreement dated November 9, 1995 between the Corporation and The R-M Trust Company, which is attached as Appendix “B” to the Management Information Circular accompanying the notice of this meeting, as the same may be amended prior to this meeting, be and it is hereby ratified and confirmed; and
2. Any Director or officer of the Corporation, be and is hereby authorized, for and on behalf of the Corporation, to execute and deliver such other documents and instruments and take such other actions as such Director or officer may determine to be necessary or advisable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such documents or instruments and the taking of any such actions.

SHAREHOLDER RIGHTS PLAN AGREEMENT

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SHAREHOLDER RIGHTS PLAN AGREEMENT

MEMORANDUM OF AGREEMENT dated as of November 9, 1995 between IPL Energy Inc. (the "Corporation"), a corporation incorporated under the *Canada Business Corporations Act* and The R-M Trust Company, a trust company incorporated under the laws of Canada (the "Rights Agent");

WHEREAS the board of directors of the Corporation has determined that it is in the best interests of the Corporation to adopt a shareholder rights plan to insure, to the extent possible, that all shareholders of the Corporation are treated fairly in connection with any take-over bid for the Corporation;

AND WHEREAS in order to implement the adoption of a shareholder rights plan as established by this Agreement, the board of directors of the Corporation has:

- (a) authorized the issuance, effective at 12:01 a.m. (Calgary time) on the Effective Date (as hereinafter defined), of one Right (as hereinafter defined) in respect of each Common Share (as hereinafter defined) outstanding at 12:01 a.m. (Calgary time) on the Effective Date (the "Record Time"); and
- (b) authorized the issuance of one Right in respect of each Common Share of the Corporation issued after the Record Time and prior to the earlier of the Separation Time (as hereinafter defined) and the Expiration Time (as hereinafter defined);

AND WHEREAS each Right entitles the holder thereof, after the Separation Time, to purchase securities of the Corporation pursuant to the terms and subject to the conditions set forth herein;

AND WHEREAS the Corporation desires to appoint the Rights Agent to act on behalf of the Corporation and the holders of Rights, and the Rights Agent is willing to so act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates (as hereinafter defined), the exercise of Rights and other matters referred to herein;

AND WHEREAS the Board of Directors of the Corporation proposes that this Agreement be in place for a period of ten years, subject to the Agreement being reconfirmed by shareholders of the Corporation every three years;

NOW THEREFORE, in consideration of the premises and the respective covenants and agreements set forth herein, and subject to such covenants and agreements, the parties hereby agree as follows:

ARTICLE 1 — INTERPRETATION

1.1 Certain Definitions

For purposes of this Agreement, the following terms have the meanings indicated:

- (a) "Acquiring Person" shall mean any Person who is the Beneficial Owner of 20% or more of the outstanding Voting Shares; provided, however, that the term "Acquiring Person" shall not include:
 - (i) the Corporation or any Subsidiary of the Corporation;
 - (ii) any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of one or any combination of (A) a Voting Share Reduction, (B) Permitted Bid Acquisitions, (C) an Exempt Acquisition or (D) Pro Rata Acquisitions; provided, however, that if a Person becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares by reason of one or any combination of the operation of Paragraphs (A), (B), (C) or (D) above and such Person's Beneficial Ownership of Voting Shares thereafter increases by more than 1.0% of the number of Voting Shares outstanding (other than pursuant to one or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition), then as of the date such Person becomes the Beneficial Owner of such additional Voting Shares, such Person shall become an "Acquiring Person";
 - (iii) for a period of ten days after the Disqualification Date (as defined below), any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of such Person becoming disqualified from relying on Clause 1.1(f) (viii) solely because such Person or the Beneficial Owner of such Voting Shares is making or has announced an intention to make a Take-over Bid, either alone or by acting jointly or in concert with any other Person. For the purposes of

this definition, “Disqualification Date” means the first date of public announcement of facts indicating that any Person is making or has announced an intention to make a Take-over Bid;

- (iv) an underwriter or member of a banking or selling group that becomes the Beneficial Owner of 20% or more of the Voting Shares in connection with a *bona fide* distribution to the public of securities of the Corporation; or
- (v) a Person (a “Grandfathered Person”) who is the Beneficial Owner of 20% or more of the outstanding Voting Shares of the Corporation determined as at the Record Time, provided, however, that this exception shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after the Record Time, become the Beneficial Owner of additional Voting Shares of the Corporation that increases its Beneficial Ownership of Voting Shares by more than 1% of the number of Voting Shares outstanding as at the Record Time (other than pursuant to one or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition);
- (b) “**Affiliate**”: when used to indicate a relationship with a Person means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person;
- (c) “**Agreement**” shall mean this shareholder rights plan agreement dated as of November 9, 1995 between the Corporation and the Rights Agent, as the same may be further amended or supplemented from time to time; “hereof”, “herein”, “hereto” and similar expressions mean and refer to this Agreement as a whole and not to any particular part of this Agreement;
- (d) “**annual cash dividend**” shall mean cash dividends paid in any fiscal year of the Corporation to the extent that such cash dividends do not exceed, in the aggregate, the greatest of:
 - (i) 200 per cent of the aggregate amount of cash dividends declared payable by the Corporation on its Common Shares in its immediately preceding fiscal year;
 - (ii) 300 per cent of the arithmetic mean of the aggregate amounts of the annual cash dividends declared payable by the Corporation on its Common Shares in its three immediately preceding fiscal years; and
 - (iii) 100 per cent of the aggregate consolidated net income of the Corporation, before extraordinary items, for its immediately preceding fiscal year;
- (e) “**Associate**” means, when used to indicate a relationship with a specified Person, a spouse of that Person, any Person of the same or opposite sex with whom that Person is living in a conjugal relationship outside marriage, a child of that Person or a relative of that Person if that relative has the same residence as that Person;
- (f) A Person shall be deemed the “**Beneficial Owner**” of, and to have “**Beneficial Ownership**” of, and to “**Beneficially Own**”,
 - (i) any securities as to which such Person or any of such Person’s Affiliates or Associates is the owner at law or in equity;
 - (ii) any securities as to which such Person or any of such Person’s Affiliates or Associates has the right to become the owner at law or in equity (whether such right is exercisable immediately or within a period of 60 days thereafter and whether or not on condition or the happening of any contingency or otherwise) pursuant to any agreement, arrangement, pledge or understanding, whether or not in writing (other than (x) customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a public offering of securities and (y) pledges of securities in the ordinary course of business), or upon the exercise of any conversion right, exchange right, share purchase right (other than the Rights), warrant or option, or otherwise; and
 - (iii) any securities which are Beneficially Owned within the meaning of Clauses 1.1(f)(i) and (ii) by any other Person with whom such Person is acting jointly or in concert;

provided, however, that a Person shall not be deemed the “Beneficial Owner” of, or to have “Beneficial Ownership” of, or to “Beneficially Own”, any security:

- (iv) where such security has been deposited or tendered pursuant to any Take-over Bid made by such Person, made by any of such Person’s Affiliates or Associates or made by any other Person acting jointly or in concert with such Person until such deposited or tendered security has been taken up or paid for, whichever shall first occur;
- (v) where such Person, any of such Person’s Affiliates or Associates or any other Person acting jointly or in concert with such Person has or shares the power to vote or direct the voting of such security pursuant to a revocable proxy given in response to a public proxy solicitation;
- (vi) where such Person, any of such Person’s Affiliates or Associates or any other Person acting jointly or in concert with such Person has or shares the power to vote or direct the voting of such security in connection with or in order to participate in a public proxy solicitation;
- (vii) where such Person has an agreement, arrangement or understanding with respect to a shareholder proposal or proposals or a matter or matters to come before a meeting of shareholders, including the election of directors;
- (viii) where such Person, any of such Person’s Affiliates or Associates or any other Person acting jointly or in concert with such Person holds or exercises voting power over such security provided that:
 - (A) the ordinary business of any such Person (the “Investment Manager”) includes the management of investment funds for others (which others, for greater certainty, may include or be limited to one or more employee benefit plans or pension plans) and such voting power over such security is held by the Investment Manager in the ordinary course of such business in the performance of such Investment Manager’s duties for the account of any other Person (a “Client”);
 - (B) such Person (the “Trust Company”) is licensed to carry on the business of a trust company under applicable laws and, as such, acts as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent Persons (each an “Estate Account”) or in relation to other accounts (each an “Other Account”) and holds such voting power over such security in the ordinary course of such duties for the estate of any such deceased or incompetent Person or for such other accounts;
 - (C) such Person is established by statute for purposes that include, and the ordinary business or activity of such Person (the “Statutory Body”) includes, the management of investment funds for employee benefit plans, pension plans, insurance plans or various public bodies; or
 - (D) such Person (the “Administrator”) is the administrator or trustee of one or more pension funds or plans (a “Plan”), or is a Plan, registered under the laws of Canada or any Province thereof or the laws of the United States of America or any State thereof;

provided, in any of the above cases, that the Investment Manager, the Trust Company, the Statutory Body, the Administrator or the Plan, as the case may be, is not then making a Take-over Bid or has not then announced an intention to make a Take-over Bid, other than an Offer to Acquire Voting Shares or other securities by means of a distribution by the Corporation or by means of ordinary market transactions (including prearranged trades) executed through the facilities of a stock exchange or organized over-the-counter market, alone or by acting jointly or in concert with any other Person;

- (ix) where such Person is (A) a Client of the same Investment Manager as another Person on whose account the Investment Manager holds or exercises voting power over such security, (B) an estate Account or an Other Account of the same Trust Company as another Person on whose account the Trust Company holds or exercises voting power over such security or (C) a Plan with the same Administrator as another Plan; or
- (x) where such Person is (A) a Client of an Investment Manager and such security is owned at law or in equity by the Investment Manager, (B) an Estate Account or an Other Account of a Trust

- Company and such security is owned at law or in equity by the Trust Company or (C) a Plan and such security is owned at law or in equity by the Administrator of the Plan;
- (g) **“Board of Directors”** shall mean the board of directors of the Corporation or any duly constituted and empowered committee thereof;
 - (h) **“Business Day”** shall mean any day other than a Saturday, Sunday or a day on which banking institutions in Calgary are authorized or obligated by law to close;
 - (i) **“Canada Business Corporations Act”** means the *Canada Business Corporations Act*, R.S.C. 1985, C. 44, as amended, and the regulations made thereunder, and any comparable or successor laws or regulations thereto;
 - (j) **“Canadian Dollar Equivalent”** of any amount which is expressed in United States Dollars means, on any date, the Canadian dollar equivalent of such amount determined by multiplying such amount by the U.S. — Canadian Exchange Rate in effect on such date;
 - (k) **“Canadian — U.S. Exchange Rate”** means, on any date, the inverse of the U.S. — Canadian Exchange Rate in effect on such date;
 - (l) **“close of business”** on any given date shall mean the time on such date (or, if such date is not a Business Day, the time on the next succeeding Business Day) at which the principal transfer office in Calgary of the transfer agent for the Common Shares of the Corporation (or, after the Separation Time, the principal transfer office in Calgary of the Rights Agent) is closed to the public;
 - (m) **“Common Shares”** shall mean the Common Shares in the capital of the Corporation;
 - (n) **“Competing Permitted Bid”** means a Take-over Bid made while another Permitted Bid is in existence and that satisfies all of the provisions of a Permitted Bid except that the condition set forth in Clause 1.1 (ai) (ii) may provide that the Voting Shares that are the subject of the Take-over Bid may be taken up or paid for on a date which is not earlier than the later of 21 days after the date of the Take-over Bid or the earliest date on which Voting Shares may be taken up or paid for under any other Permitted Bid that is then in existence for the Voting Shares;
 - (o) **“controlled”**: a corporation is “controlled” by another Person or two or more Persons if:
 - (i) securities entitled to vote in the election of directors carrying more than 50 per cent of the votes for the election of directors are held, directly or indirectly, by or for the benefit of the other Person or Persons; and
 - (ii) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such corporation;
 and “controls”, “controlling” and “under common control with” shall be interpreted accordingly;
 - (p) **“Co-Rights Agents”** shall have the meaning ascribed thereto in Subsection 4.1(a);
 - (q) **“Disposition Date”** shall have the meaning ascribed thereto in Subsection 5.1(h);
 - (r) **“Dividend Reinvestment Acquisition”** shall mean an acquisition of Voting Shares pursuant to a Dividend Reinvestment Plan;
 - (s) **“Dividend Reinvestment Plan”** means a regular dividend reinvestment or other plan of the Corporation made available by the Corporation to holders of its securities where such plan permits the holder to direct that some or all of:
 - (i) dividends paid in respect of shares of any class of the Corporation;
 - (ii) proceeds of redemption of shares of the Corporation;
 - (iii) interest paid on evidences of indebtedness of the Corporation; or
 - (iv) optional cash payments;
 be applied to the purchase from the Corporation of Voting Shares;
 - (t) **“Election to Exercise”** shall have the meaning ascribed thereto in Clause 2.2(d) (ii);
 - (u) **“Effective Date”** means November 9, 1995;

- (v) **"Exempt Acquisition"** means a share acquisition in respect of which the Board of Directors has waived the application of Section 3.1 pursuant to the provisions of Subsection 5.1(a) or (h);
- (w) **"Exercise Price"** shall mean, as of any date, the price at which a holder may purchase the securities issuable upon exercise of one whole Right which, until adjustment thereof in accordance with the terms hereof, shall be \$120;
- (x) **"Expansion Factor"** shall have the meaning ascribed thereto in Clause 2.3(a)(x);
- (y) **"Expiration Time"** shall mean the close of business on that date which is the earliest of the date of termination of this Agreement pursuant to Section 5.15 or, if this Agreement is confirmed pursuant to Section 5.15, the date of termination of this Agreement pursuant to Section 5.16 or, if this Agreement is reconfirmed pursuant to Section 5.16, the close of business on the tenth anniversary of the Effective Date;
- (z) **"Flip-in Event"** shall mean a transaction in or pursuant to which any Person becomes an Acquiring Person;
- (aa) **"holder"** shall have the meaning ascribed thereto in Section 2.8;
- (ab) **"Independent Shareholders"** shall mean holders of Voting Shares, other than:
 - (i) any Acquiring Person;
 - (ii) any Offeror;
 - (iii) any Affiliate or Associate of any Acquiring Person or Offeror;
 - (iv) any Person acting jointly or in concert with any Acquiring Person or Offeror; and
 - (v) any employee benefit plan, deferred profit sharing plan, stock participation plan and any other similar plan or trust for the benefit of employees of the Corporation unless the beneficiaries of the plan or trust direct the manner in which the Voting Shares are to be voted or direct whether the Voting Shares are to be tendered to a Take-over Bid;
- (ac) **"Market Price"** per share of any securities on any date of determination shall mean the average of the daily closing prices per share of such securities (determined as described below) on each of the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, however, that if an event of a type analogous to any of the events described in Section 2.3 hereof shall have caused the closing prices used to determine the Market Price on any Trading Days not to be fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day, each such closing price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 hereof in order to make it fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day. The closing price per share of any securities on any date shall be:
 - (i) the closing board lot sale price or, in case no such sale takes place on such date, the average of the closing bid and asked prices for each of such securities as reported by the principal Canadian stock exchange (as determined by the Board of Directors) on which such securities are listed or admitted to trading;
 - (ii) if for any reason none of such prices is available on such day or the securities are not listed or posted for trading on a Canadian stock exchange, the last sale price or, in case no such sale takes place on such date, the average of the closing bid and asked prices for each of such securities as reported by the principal national United States securities exchange (as determined by the Board of Directors) on which such securities are listed or admitted to trading;
 - (iii) if for any reason none of such prices is available on such day or the securities are not listed or admitted to trading on a Canadian stock exchange or a national United States securities exchange, the last sale price or, in case no sale takes place on such date, the average of the high bid and low asked prices for each of such securities in the over-the-counter market, as quoted by any reporting system then in use (as determined by the Board of Directors); or

- (iv) if for any reason none of such prices is available on such day or the securities are not listed or admitted to trading on a Canadian stock exchange or a national United States securities exchange or quoted by any such reporting system, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the securities selected by the Board of Directors;

provided, however, that if for any reason none of such prices is available on such day, the closing price per share of such securities on such date means the fair value per share of such securities on such date as determined by the Board of Directors, after consultation with a nationally recognized investment dealer or investment banker with respect to the fair value per share of such securities. The Market Price shall be expressed in Canadian dollars and, if initially determined in respect of any day forming part of the 20 consecutive Trading Day period in question in United States dollars, such amount shall be translated into Canadian dollars on such date at the Canadian Dollar Equivalent thereof;

- (ad) **"1934 Exchange Act"** means the *Securities Exchange Act of 1934* of the United States, as amended, and the rules and regulations thereunder as now in effect or as the same may from time to time be amended, re-enacted or replaced;
- (ae) **"Nominee"** shall have the meaning ascribed thereto in Subsection 2.2(c);
- (af) **"Offer to Acquire"** shall include:
 - (i) an offer to purchase or a solicitation of an offer to sell Voting Shares; and
 - (ii) an acceptance of an offer to sell Voting Shares, whether or not such offer to sell has been solicited; or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an Offer to Acquire to the Person that made the offer to sell;
- (ag) **"Offeror"** shall mean a Person who has announced, and has not withdrawn, an intention to make or who has made, and has not withdrawn, a Take-over Bid, other than a Person who has completed a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition;
- (ah) **"Offeror's Securities"** means Voting Shares Beneficially Owned by an Offeror on the date of the Offer to Acquire;
- (ai) **"Permitted Bid"** means a Take-over Bid made by an Offeror by way of take-over bid circular which also complies with the following additional provisions:
 - (i) the Take-over Bid is made to all holders of Voting Shares as registered on the books of the Corporation, other than the Offeror;
 - (ii) the Take-over Bid contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no Voting Shares will be taken up or paid for pursuant to the Take-over Bid prior to the close of business on the date which is not less than 60 days following the date of the Take-over Bid and only if at such date more than 50% of the Voting Shares held by Independent Shareholders shall have been deposited or tendered pursuant to the Take-over Bid and not withdrawn;
 - (iii) unless the Take-over Bid is withdrawn, the Take-over Bid contains an irrevocable and unqualified provision that Voting Shares may be deposited pursuant to such Take-over Bid at any time during the period of time described in Clause 1.1(ai)(ii) and that any Voting Shares deposited pursuant to the Take-over Bid may be withdrawn until taken up and paid for; and
 - (iv) the Take-over Bid contains an irrevocable and unqualified provision that in the event that the deposit condition set forth in Clause 1.1(ai)(ii) is satisfied the Offeror will make a public announcement of that fact and the Take-over Bid will remain open for deposits and tenders of Voting Shares for not less than ten Business Days from the date of such public announcement;
- (aj) **"Permitted Bid Acquisition"** shall mean an acquisition of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid;
- (ak) **"Person"** shall include any individual, firm, partnership, association, trust, body corporate, corporation, unincorporated organization, syndicate, governmental entity or other entity;

- (al) **“Pro Rata Acquisition”** means an acquisition by a Person of Voting Shares pursuant to:
- (i) a Dividend Reinvestment Acquisition;
 - (ii) a stock dividend, stock split or other event in respect of securities of the Corporation of one or more particular classes or series pursuant to which such Person becomes the Beneficial Owner of Voting Shares on the same pro rata basis as all other holders of securities of the particular class, classes or series;
 - (iii) the acquisition or the exercise by the Person of only those rights to purchase Voting Shares distributed to that Person in the course of a distribution to all holders of securities of the Corporation of one or more particular classes or series pursuant to a bona fide rights offering or pursuant to a prospectus; or
 - (iv) a distribution of Voting Shares, or securities convertible into or exchangeable for Voting Shares (and the conversion or exchange of such convertible or exchangeable securities), made pursuant to a prospectus or by way of a private placement, provided that the Person does not thereby acquire a greater percentage of such Voting Shares, or securities convertible into or exchangeable for Voting Shares, so offered than the Person’s percentage of Voting Shares Beneficially Owned immediately prior to such acquisition;
- (am) **“Record Time”** has the meaning set forth in the first whereas clause;
- (an) **“Right”** means a right to purchase a Common Share of the Corporation upon the terms and subject to the conditions set forth in this Agreement;
- (ao) **“Rights Certificate”** means the certificates representing the Rights after the Separation Time, which shall be substantially in the form attached hereto as Attachment 1;
- (ap) **“Rights Register”** shall have the meaning ascribed thereto in Subsection 2.6(a);
- (aq) **“Securities Act (Alberta)”** shall mean the *Securities Act*, S.A. 1991, c.S-6.1, as amended, and the regulations thereunder, and any comparable or successor laws or regulations thereto;
- (ar) **“Separation Time”** shall mean the close of business on the eighth Trading Day after the earlier of:
- (i) the Stock Acquisition Date; and
 - (ii) the date of the commencement of or first public announcement of the intent of any Person (other than the Corporation or any Subsidiary of the Corporation) to commence a Take-over Bid (other than a Permitted Bid or a Competing Permitted Bid), or such later time as may be determined by the Board of Directors, provided that, if any Take-over Bid referred to in this Clause (ii) expires, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such Take-over Bid shall be deemed, for the purposes of this definition, never to have been made;
- (as) **“Stock Acquisition Date”** shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to section 141 of the *Securities Act* (Alberta) or Section 13(d) of the *1934 Exchange Act*) by the Corporation or an Acquiring Person that an Acquiring Person has become such;
- (at) **“Subsidiary”**: a corporation shall be deemed to be a Subsidiary of another corporation if:
- (i) it is controlled by:
 - (A) that other; or
 - (B) that other and one or more corporations each of which is controlled by that other; or
 - (C) two or more corporations each of which is controlled by that other; or
 - (ii) it is a Subsidiary of a corporation that is that other’s Subsidiary;
- (au) **“Take-over Bid”** shall mean an Offer to Acquire Voting Shares, or securities convertible into Voting Shares if, assuming that the Voting Shares or convertible securities subject to the Offer to Acquire are acquired and are Beneficially Owned at the date of such Offer to Acquire by the Person making such Offer to Acquire, such Voting Shares (including Voting Shares that may be acquired upon conversion of

securities convertible into Voting Shares) together with the Offeror's Securities, constitute in the aggregate 20% or more of the outstanding Voting Shares at the date of the Offer to Acquire;

- (av) **"Trading Day"**, when used with respect to any securities, shall mean a day on which the principal Canadian stock exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if the securities are not listed or admitted to trading on any Canadian stock exchange, a Business Day;
- (aw) **"U.S.-Canadian Exchange Rate"** means, on any date:
 - (i) if on such date the Bank of Canada sets an average noon spot rate of exchange for the conversion of one United States dollar into Canadian dollars, such rate; and
 - (ii) in any other case, the rate for such date for the conversion of one United States dollar into Canadian dollars calculated in such manner as may be determined by the Board of Directors from time to time acting in good faith;
- (ax) **"U.S. Dollar Equivalent"** of any amount which is expressed in Canadian dollars means, on any date, the United States dollar equivalent of such amount determined by multiplying such amount by the Canadian-U.S. Exchange Rate in effect on such date; and
- (ay) **"Voting Share Reduction"** means an acquisition or redemption by the Corporation of Voting Shares which, by reducing the number of Voting Shares outstanding, increases the proportionate number of Voting Shares Beneficially Owned by any person to 20% or more of the Voting Shares then outstanding;
- (az) **"Voting Shares"** shall mean the Common Shares of the Corporation and any other shares in the capital of the Corporation entitled to vote generally in the election of all directors.

1.2 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada, unless otherwise specified.

1.3 Headings

The division of this Agreement into Articles, Sections, Subsections, Clauses, Paragraphs, Subparagraphs or other portions hereof and the insertion of headings, subheadings and a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.4 Calculation of Number and Percentage of Beneficial Ownership of Outstanding Voting Shares

For purposes of this Agreement, the percentage of Voting Shares Beneficially Owned by any Person, shall be and be deemed to be the product (expressed as a percentage) determined by the formula:

$$100 \times A/B$$

where:

A = the number of votes for the election of all directors generally attaching to the Voting Shares Beneficially Owned by such Person; and

B = the number of votes for the election of all directors generally attaching to all outstanding Voting Shares.

Where any Person is deemed to Beneficially Own unissued Voting Shares, such Voting Shares shall be deemed to be outstanding for the purpose of calculating the percentage of Voting Shares Beneficially Owned by such Person.

1.5 Acting Jointly or in Concert

For the purposes hereof, a Person is acting jointly or in concert with every Person who, as a result of any agreement, commitment or understanding, whether formal or informal, with the first Person or any Associate or Affiliate thereof, acquires or offers to acquire Voting Shares.

1.6 Generally Accepted Accounting Principles

Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be the recommendations at the relevant time of the Canadian Institute of Chartered Accountants, or

any successor institute, applicable on a consolidated basis (unless otherwise specifically provided herein to be applicable on an unconsolidated basis) as at the date on which a calculation is made or required to be made in accordance with generally accepted accounting principles. Where the character or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other accounting computation is required to be made for the purpose of this Agreement or any document, such determination or calculation shall, to the extent applicable and except as otherwise specified herein or as otherwise agreed in writing by the parties, be made in accordance with generally accepted accounting principles applied on a consistent basis.

ARTICLE 2 — THE RIGHTS

2.1 Legend on Common Share Certificates

Certificates representing Common Shares which are issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time, shall also evidence one Right for each Common Share represented thereby and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

Until the Separation Time (defined in the Shareholder Rights Agreement referred to below), this certificate also evidences rights of the holder described in a Shareholder Rights Plan Agreement dated as of November 9, 1995 (the “Shareholder Rights Agreement”) between IPL Energy Inc. (the “Corporation”) and The R-M Trust Company, as supplemented and amended, the terms of which are incorporated herein by reference and a copy of which is on file at the principal executive offices of the Corporation. Under certain circumstances set out in the Shareholder Rights Agreement, the rights may expire, may become null and void or may be evidenced by separate certificates and no longer evidenced by this certificate. The Corporation will mail or arrange for the mailing of a copy of the Shareholder Rights Agreement to the holder of this certificate without charge as soon as practicable after the receipt of a written request therefor.

Certificates representing Common Shares that are issued and outstanding at the Record Time shall also evidence one Right for each Common Share represented thereby, notwithstanding the absence of the foregoing legend, until the close of business on the earlier of the Separation Time and the Expiration Time.

2.2 Initial Exercise Price; Exercise of Rights; Detachment of Rights

- (a) Subject to adjustment as herein set forth, each Right will entitle the holder thereof, from and after the Separation Time and prior to the Expiration Time, to purchase one Common Share for the Exercise Price (and the Exercise Price and number of Common Shares are subject to adjustment as set forth below). Notwithstanding any other provision of this Agreement, any Rights held by the Corporation or any of its Subsidiaries shall be void.
- (b) Until the Separation Time,
 - (i) the Rights shall not be exercisable and no Right may be exercised; and
 - (ii) each Right will be evidenced by the certificate for the associated Common Share of the Corporation registered in the name of the holder thereof (which certificate shall also be deemed to represent a Rights Certificate) and will be transferable only together with, and will be transferred by a transfer of, such associated Common Share of the Corporation.
- (c) From and after the Separation Time and prior to the Expiration Time:
 - (i) the Rights shall be exercisable; and
 - (ii) the registration and transfer of Rights shall be separate from and independent of Common Shares of the Corporation.

Promptly following the Separation Time, the Corporation will prepare and the Rights Agent will mail to each holder of record of Common Shares as of the Separation Time (other than an Acquiring Person and, in respect of any Rights Beneficially Owned by such Acquiring Person which are not held of record by such Acquiring Person, the holder of record of such Rights (a “Nominee”)) at such holder’s address

as shown by the records of the Corporation (the Corporation hereby agreeing to furnish copies of such records to the Rights Agent for this purpose):

- (x) a Rights Certificate appropriately completed, representing the number of Rights held by such holder at the Separation Time and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Corporation may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, rule or regulation or with any rule or regulation of any self-regulatory organization, stock exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage; and
 - (y) a disclosure statement describing the Rights,
- provided that a Nominee shall be sent the materials provided for in (x) and (y) in respect of all Common Shares of the Corporation held of record by it which are not Beneficially Owned by an Acquiring Person.
- (d) Rights may be exercised, in whole or in part, on any Business Day after the Separation Time and prior to the Expiration Time by submitting to the Rights Agent:
 - (i) the Rights Certificate evidencing such Rights;
 - (ii) an election to exercise such Rights (an “Election to Exercise”) substantially in the form attached to the Rights Certificate appropriately completed and executed by the holder or his executors or administrators or other personal representatives or his or their legal attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Rights Agent; and
 - (iii) payment by certified cheque, banker’s draft or money order payable to the order of the Corporation, of a sum equal to the Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being exercised.
 - (e) Upon receipt of a Rights Certificate, together with a completed Election to Exercise executed in accordance with Clause 2.2(d) (ii), which does not indicate that such Right is null and void as provided by Subsection 3.1 (b), and payment as set forth in Clause 2.2(d) (iii), the Rights Agent (unless otherwise instructed by the Corporation in the event that the Corporation is of the opinion that the Rights cannot be exercised in accordance with this Agreement) will thereupon promptly:
 - (i) requisition from the transfer agent certificates representing the number of such Common Shares to be purchased (the Corporation hereby irrevocably authorizing its transfer agent to comply with all such requisitions);
 - (ii) when appropriate, requisition from the Corporation the amount of cash to be paid in lieu of issuing fractional Common Shares;
 - (iii) after receipt of the certificates referred to in Clause 2.2(e) (i), deliver the same to or upon the order of the registered holder of such Rights Certificates, registered in such name or names as may be designated by such holder; and
 - (iv) when appropriate, after receipt, deliver the cash referred to in Clause 2.2(e) (ii) to or to the order of the registered holder of such Rights Certificate.
 - (f) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder’s Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised (subject to the provisions of Subsection 5.5(a)) will be issued by the Rights Agent to such holder or to such holder’s duly authorized assigns.
 - (g) The Corporation covenants and agrees that it will:
 - (i) take all such action as may be necessary and within its power to ensure that all Common Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such Common Shares (subject to payment of the Exercise Price), be duly and validly authorized, executed, issued and delivered as fully paid and non-assessable;

- (ii) take all such action as may be necessary and within its power to comply with the requirements of the *Canada Business Corporations Act*, the *Securities Act* (Alberta) and the securities laws or comparable legislation of each of the provinces of Canada and any other applicable law, rule or regulation, in connection with the issuance and delivery of the Rights Certificates and the issuance of any Common Shares upon exercise of Rights;
- (iii) use reasonable efforts to cause all Common Shares issued upon exercise of Rights to be listed on the stock exchanges on which such Common Shares were traded immediately prior to the Stock Acquisition Date;
- (iv) cause to be reserved and kept available out of the authorized and unissued Common Shares, the number of Common Shares that, as provided in this Agreement, will from time to time be sufficient to permit the exercise in full of all outstanding Rights;
- (v) pay when due and payable, if applicable, any and all federal, provincial and municipal transfer taxes and charges (not including any income or capital taxes of the holder or exercising holder or any liability of the Corporation to withhold tax) which may be payable in respect of the original issuance or delivery of the Rights Certificates, or certificates for Common Shares to be issued upon exercise of any Rights, provided that the Corporation shall not be required to pay any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being transferred or exercised; and
- (vi) after the Separation Time, except as permitted by Section 5.1, not take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

2.3 Adjustments to Exercise Price; Number of Rights

The Exercise Price, the number and kind of securities subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 2.3.

- (a) In the event the Corporation shall at any time after the date of this Agreement:
 - (i) declare or pay a dividend on Common Shares payable in Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other securities of the Corporation) other than pursuant to any optional stock dividend program;
 - (ii) subdivide or change the then outstanding Common Shares into a greater number of Common Shares;
 - (iii) consolidate or change the then outstanding Common Shares into a smaller number of Common Shares; or
 - (iv) issue any Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other securities of the Corporation) in respect of, in lieu of or in exchange for existing Common Shares except as otherwise provided in this Section 2.3,

the Exercise Price and the number of Rights outstanding, or, if the payment or effective date therefor shall occur after the Separation Time, the securities purchasable upon exercise of Rights shall be adjusted as of the payment or effective date in the manner set forth below.

If the Exercise Price and number of Rights outstanding are to be adjusted:

- (x) the Exercise Price in effect after such adjustment will be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number of Common Shares (or other capital stock) (the "Expansion Factor") that a holder of one Common Share immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result thereof; and
- (y) each Right held prior to such adjustment will become that number of Rights equal to the Expansion Factor,

and the adjusted number of Rights will be deemed to be distributed among the Common Shares with respect to which the original Rights were associated (if they remain outstanding) and the shares issued in respect of such dividend, subdivision, change, consolidation or issuance, so that each such Common Share (or other capital stock) will have exactly one Right associated with it.

For greater certainty, if the securities purchasable upon exercise of Rights are to be adjusted, the securities purchasable upon exercise of each Right after such adjustment will be the securities that a holder of the securities purchasable upon exercise of one Right immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result of such dividend, subdivision, change, consolidation or issuance.

If, after the Record Time and prior to the Expiration Time, the Corporation shall issue any shares of capital stock other than Common Shares in a transaction of a type described in Clause 2.3(a) (i) or (iv), shares of such capital stock shall be treated herein as nearly equivalent to Common Shares as may be practicable and appropriate under the circumstances and the Corporation and the Rights Agent agree to amend this Agreement in order to effect such treatment.

In the event the Corporation shall at any time after the Record Time and prior to the Separation Time issue any Common Shares otherwise than in a transaction referred to in this Subsection 2.3(a), each such Common Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such associated Common Share.

- (b) In the event the Corporation shall at any time after the Record Time and prior to the Separation Time fix a record date for the issuance of rights, options or warrants to all holders of Common Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Shares (or securities convertible into or exchangeable for or carrying a right to purchase Common Shares) at a price per Common Share (or, if a security convertible into or exchangeable for or carrying a right to purchase or subscribe for Common Shares, having a conversion, exchange or exercise price, including the price required to be paid to purchase such convertible or exchangeable security or right per share) less than the Market Price per Common Share on such record date, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:
- (i) the numerator of which shall be the number of Common Shares outstanding on such record date, plus the number of Common Shares that the aggregate offering price of the total number of Common Shares so to be offered (and/or the aggregate initial conversion, exchange or exercise price of the convertible or exchangeable securities or rights so to be offered, including the price required to be paid to purchase such convertible or exchangeable securities or rights) would purchase at such Market Price per Common Share; and
 - (ii) the denominator of which shall be the number of Common Shares outstanding on such record date, plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible or exchangeable securities or rights so to be offered are initially convertible, exchangeable or exercisable).

In case such subscription price may be paid by delivery of consideration, part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights, options or warrants are not so issued, or if issued, are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed, or to the Exercise Price which would be in effect based upon the number of Common Shares (or securities convertible into, or exchangeable or exercisable for Common Shares) actually issued upon the exercise of such rights, options or warrants, as the case may be.

For purposes of this Agreement, the granting of the right to purchase Common Shares (whether from treasury or otherwise) pursuant to the Dividend Reinvestment Plan or any employee benefit, stock option or similar plans shall be deemed not to constitute an issue of rights, options or warrants by the

Corporation; provided, however, that, in all such cases, the right to purchase Common Shares is at a price per share of not less than 95 per cent of the current market price per share (determined as provided in such plans) of the Common Shares.

- (c) In the event the Corporation shall at any time after the Record Time and prior to the Separation Time fix a record date for the making of a distribution to all holders of Common Shares (including any such distribution made in connection with a merger or amalgamation) of evidences of indebtedness, cash (other than an annual cash dividend or a dividend referred to in Section 2.3(a)(i), but including any dividend payable in other securities of the Corporation), assets or rights, options or warrants (excluding those referred to in Subsection 2.3(b)), the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:
 - (i) the numerator of which shall be the Market Price per Common Share on such record date, less the fair market value (as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights), on a per share basis, of the portion of the cash, assets, evidences of indebtedness, rights, options or warrants so to be distributed; and
 - (ii) the denominator of which shall be such Market Price per Common Share.

Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such a distribution is not so made, the Exercise Price shall be adjusted to be the Exercise Price which would have been in effect if such record date had not been fixed.

- (d) Notwithstanding anything herein to the contrary, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least one per cent in the Exercise Price; provided, however, that any adjustments which by reason of this Subsection 2.3(d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under Section 2.3 shall be made to the nearest cent or to the nearest ten-thousandth of a share. Notwithstanding the first sentence of this Subsection 2.3(d), any adjustment required by Section 2.3 shall be made no later than the earlier of:
 - (i) three years from the date of the transaction which gives rise to such adjustment; or
 - (ii) the Expiration Date.
- (e) In the event the Corporation shall at any time after the Record Time and prior to the Separation Time issue any shares of capital stock (other than Common Shares), or rights, options or warrants to subscribe for or purchase any such capital stock, or securities convertible into or exchangeable for any such capital stock, in a transaction referred to in Clause 2.3(a)(i) or (iv), if the Board of Directors acting in good faith determines that the adjustments contemplated by Subsections 2.3(a), (b) and (c) in connection with such transaction will not appropriately protect the interests of the holders of Rights, the Board of Directors may determine what other adjustments to the Exercise Price, number of Rights and/or securities purchasable upon exercise of Rights would be appropriate and, notwithstanding Subsections 2.3(a), (b) and (c), such adjustments, rather than the adjustments contemplated by Subsections 2.3(a), (b) and (c), shall be made. Subject to the prior consent of the holders of the Voting Shares or the Rights obtained as set forth in Subsection 5.4(b) or (c), the Corporation and the Rights Agent shall have authority to amend this Agreement as appropriate to provide for such adjustments.
- (f) Each Right originally issued by the Corporation subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of Common Shares purchasable from time to time hereunder upon exercise of a Right immediately prior to such issue, all subject to further adjustment as provided herein.
- (g) Irrespective of any adjustment or change in the Exercise Price or the number of Common Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Exercise Price per Common Share and the number of Common Shares which were expressed in the initial Rights Certificates issued hereunder.

- (h) In any case in which this Section 2.3 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Corporation may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of Common Shares and other securities of the Corporation, if any, issuable upon such exercise over and above the number of Common Shares and other securities of the Corporation, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or other securities upon the occurrence of the event requiring such adjustment.
- (i) Notwithstanding anything contained in this Section 2.3 to the contrary, the Corporation shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this Section 2.3, as and to the extent that in their good faith judgment the Board of Directors shall determine to be advisable, in order that any:
 - (i) consolidation or subdivision of Common Shares;
 - (ii) issuance (wholly or in part for cash) of Common Shares or securities that by their terms are convertible into or exchangeable for Common Shares;
 - (iii) stock dividends; or
 - (iv) issuance of rights, options or warrants referred to in this Section 2.3,hereafter made by the Corporation to holders of its Common Shares, shall not be taxable to such shareholders.

2.4 Date on Which Exercise Is Effective

Each Person in whose name any certificate for Common Shares or other securities, if applicable, is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares or other securities, if applicable, represented thereon, and such certificate shall be dated the date upon which the Rights Certificate evidencing such Rights was duly surrendered in accordance with Subsection 2.2(d) (together with a duly completed Election to Exercise) and payment of the Exercise Price for such Rights (and any applicable transfer taxes and other governmental charges payable by the exercising holder hereunder) was made; provided, however, that if the date of such surrender and payment is a date upon which the Common Share transfer books of the Corporation are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Common Share transfer books of the Corporation are open.

2.5 Execution, Authentication, Delivery and Dating of Rights Certificates

- (a) The Rights Certificates shall be executed on behalf of the Corporation by its Chairman of the Board, President or any Vice-President and by its Corporate Secretary or any Assistant Secretary under the corporate seal of the Corporation reproduced thereon. The signature of any of these officers on the Rights Certificates may be manual or facsimile. Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Corporation shall bind the Corporation, notwithstanding that such individuals or any of them have ceased to hold such offices either before or after the countersignature and delivery of such Rights Certificates.
- (b) Promptly after the Corporation learns of the Separation Time, the Corporation will notify the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Corporation to the Rights Agent for countersignature, and the Rights Agent shall manually countersign (in a manner satisfactory to the Corporation) and send such Rights Certificates to the holders of the Rights pursuant to Subsection 2.2(c) hereof. No Rights Certificate shall be valid for any purpose until countersigned by the Rights Agent as aforesaid.
- (c) Each Rights Certificate shall be dated the date of countersignature thereof.

2.6 Registration, Transfer and Exchange

- (a) The Corporation will cause to be kept a register (the “Rights Register”) in which, subject to such reasonable regulations as it may prescribe, the Corporation will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed registrar for the Rights (the “Rights Registrar”) for the purpose of maintaining the Rights Register for the Corporation and registering Rights and transfers of Rights as herein provided and the Rights Agent hereby accepts such appointment. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times.

After the Separation Time and prior to the Expiration Time, upon surrender for registration of transfer or exchange of any Rights Certificate, and subject to the provisions of Subsection 2.6(c), the Corporation will execute, and the Rights Agent will manually countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder’s instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificates so surrendered.

- (b) All Rights issued upon any registration of transfer or exchange of Rights Certificates shall be the valid obligations of the Corporation, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.
- (c) Every Rights Certificate surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Corporation or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder’s attorney duly authorized in writing. As a condition to the issuance of any new Rights Certificate under this Section 2.6, the Corporation may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.

2.7 Mutilated, Destroyed, Lost and Stolen Rights Certificates

- (a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, the Corporation shall execute and the Rights Agent shall countersign and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so surrendered.
- (b) If there shall be delivered to the Corporation and the Rights Agent prior to the Expiration Time:
 - (i) evidence to their reasonable satisfaction of the destruction, loss or theft of any Rights Certificate; and
 - (ii) such security or indemnity as may be reasonably required by them to save each of them and any of their agents harmless, then, in the absence of notice to the Corporation or the Rights Agent that such Rights Certificate has been acquired by a *bona fide* purchaser, the Corporation shall execute and upon the Corporation’s request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.
- (c) As a condition to the issuance of any new Rights Certificate under this Section 2.7, the Corporation may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.
- (d) Every new Rights Certificate issued pursuant to this Section 2.7 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence the contractual obligation of the Corporation, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued hereunder.

2.8 Persons Deemed Owners of Rights

The Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name a Rights Certificate (or, prior to the Separation Time, the associated Common Share

certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term “holder” of any Right shall mean the registered holder of such Right (or, prior to the Separation Time, of the associated Common Share).

2.9 Delivery and Cancellation of Certificates

All Rights Certificates surrendered upon exercise or for redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Corporation may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Corporation may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificate shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this Section 2.9, except as expressly permitted by this Agreement. The Rights Agent shall, subject to applicable laws, destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Corporation.

2.10 Agreement of Rights Holders

Every holder of Rights, by accepting the same, consents and agrees with the Corporation and the Rights Agent and with every other holder of Rights:

- (a) to be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Rights held;
- (b) that prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Common Share certificate representing such Right;
- (c) that after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;
- (d) that prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) for registration of transfer, the Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on such Rights Certificate or the associated Common Share certificate made by anyone other than the Corporation or the Rights Agent) for all purposes whatsoever, and neither the Corporation nor the Rights Agent shall be affected by any notice to the contrary;
- (e) that such holder of Rights has waived his right to receive any fractional Rights or any fractional shares or other securities upon exercise of a Right (except as provided herein); and
- (f) that, subject to the provisions of Section 5.4, without the approval of any holder of Rights or Voting Shares and upon the sole authority of the Board of Directors, acting in good faith, this Agreement may be supplemented or amended from time to time to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with the intent of this Agreement or is otherwise defective, as provided herein.

2.11 Rights Certificate Holder Not Deemed a Shareholder

No holder, as such, of any Rights or Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose whatsoever the holder of any Common Share or any other share or security of the Corporation which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed or deemed or confer upon the holder of any Right or Rights Certificate, as such, any right, title, benefit or privilege of a holder of Common Shares or any other shares or securities of the Corporation or any right to vote at any meeting of shareholders of the Corporation whether for the election of directors or otherwise or upon any matter submitted to holders of Common Shares or any other shares of the Corporation at any meeting thereof, or to give or withhold consent to any action of the Corporation, or to receive notice of any meeting or other action affecting any holder of Common Shares or any other shares of the Corporation except as expressly provided herein, or to receive dividends, distributions or subscription rights, or otherwise, until the Right or Rights evidenced by Rights Certificates shall have been duly exercised in accordance with the terms and provisions hereof.

ARTICLE 3 — ADJUSTMENTS TO THE RIGHTS

3.1 Flip-in Event

- (a) Subject to Subsection 3.1(b) and Section 5.1, in the event that prior to the Expiration Time a Flip-in Event shall occur, each Right shall constitute, effective at the close of business on the eighth Trading Day after the Stock Acquisition Date, the right to purchase from the Corporation, upon exercise thereof in accordance with the terms hereof, that number of Common Shares having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that after such consummation or occurrence, an event of a type analogous to any of the events described in Section 2.3 shall have occurred).
- (b) Notwithstanding anything in this Agreement to the contrary, upon the occurrence of any Flip-in Event, any Rights that are or were Beneficially Owned on or after the earlier of the Separation Time or the Stock Acquisition Date by:
 - (i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person); or
 - (ii) a transferee of Rights, directly or indirectly, from an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person), where such transferee becomes a transferee concurrently with or subsequent to the Acquiring Person becoming such in a transfer that the Board of Directors has determined is part of a plan, arrangement or scheme of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person), that has the purpose or effect of avoiding Clause 3.1(b)(i),

shall become null and void without any further action, and any holder of such Rights (including transferees) shall thereafter have no right to exercise such Rights under any provision of this Agreement and further shall thereafter not have any other rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise.

- (c) From and after the Separation Time, the Corporation shall do all such acts and things as shall be necessary and within its power to ensure compliance with the provisions of this Section 3.1, including without limitation, all such acts and things as may be required to satisfy the requirements of the *Canada Business Corporations Act*, the *Securities Act* (Alberta) and the securities laws or comparable legislation of each of the provinces of Canada and of the United States and each of the states thereof in respect of the issue of Common Shares upon the exercise of Rights in accordance with this Agreement.
- (d) Any Rights Certificate that represents Rights Beneficially Owned by a Person described in either Clause 3.1(b)(i) or (ii) or transferred to any nominee of any such Person, and any Rights Certificate issued upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain the following legend:

The Rights represented by this Rights Certificate were issued to a Person who was an Acquiring Person or an Affiliate or an Associate of an Acquiring Person (as such terms are defined in the Shareholder Rights Plan Agreement) or a Person who was acting jointly or in concert with an Acquiring Person or an Affiliate or Associate of an Acquiring Person. This Rights Certificate and the Rights represented hereby are void or shall become void in the circumstances specified in Subsection 3.1(b) of the Shareholder Rights Plan Agreement.

provided, however, that the Rights Agent shall not be under any responsibility to ascertain the existence of facts that would require the imposition of such legend but shall impose such legend only if instructed to do so by the Corporation in writing or if a holder fails to certify upon transfer or exchange in the space provided on the Rights Certificate that such holder is not a Person described in such legend.

ARTICLE 4 — THE RIGHTS AGENT

4.1 General

- (a) The Corporation hereby appoints the Rights Agent to act as agent for the Corporation and the holders of the Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Corporation may from time to time appoint such co-Rights Agents (“Co-Rights Agents”) as it may deem necessary or desirable. In the event the Corporation appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and Co-Rights Agents shall be as the Corporation may determine. The Corporation agrees to pay all reasonable fees and expenses of the Rights Agent in respect of the performance of its duties under this Agreement. The Corporation also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or wilful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability, which right to indemnification will survive the termination of this Agreement.
- (b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any certificate for Common Shares, Rights Certificate, certificate for other securities of the Corporation, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

4.2 Merger, Amalgamation or Consolidation or Change of Name of Rights Agent

- (a) Any corporation into which the Rights Agent may be merged or amalgamated or with which it may be consolidated, or any corporation resulting from any merger, amalgamation, statutory arrangement or consolidation to which the Rights Agent is a party, or any corporation succeeding to the shareholder or stockholder services business of the Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 4.4 hereof. In case at the time such successor Rights Agent succeeds to the agency created by this Agreement any of the Rights Certificates have been countersigned but not delivered, any successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights have not been countersigned, any successor Rights Agent may countersign such Rights Certificates in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.
- (b) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

4.3 Duties of Rights Agent

The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, all of which the Corporation and the holders of certificates for Common Shares and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

- (a) the Rights Agent may consult with legal counsel (who may be legal counsel for the Corporation) and the opinion of such counsel will be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion;
- (b) whenever in the performance of its duties under this Agreement, the Rights Agent deems it necessary or desirable that any fact or matter be proved or established by the Corporation prior to taking or suffering

any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a Person believed by the Rights Agent to be the Chairman of the Board, President, any Vice-President, Treasurer, Corporate Secretary, or any Assistant Secretary of the Corporation and delivered to the Rights Agent; and such certificate will be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate;

- (c) the Rights Agent will be liable hereunder for its own negligence, bad faith or wilful misconduct;
- (d) the Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates for Common Shares or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Corporation only;
- (e) the Rights Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any certificate for a Common Share or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Corporation of any covenant or condition contained in this Agreement or in any Rights Certificate; nor will it be responsible for any change in the exerciseability of the Rights (including the Rights becoming void pursuant to Subsection 3.1(b) hereof) or any adjustment required under the provisions of Section 2.3 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by Section 2.3 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Common Shares to be issued pursuant to this Agreement or any Rights or as to whether any Common Shares will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and non-assessable;
- (f) the Corporation agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement;
- (g) the Rights Agent is hereby authorized and directed to accept instructions in writing with respect to the performance of its duties hereunder from any individual believed by the Rights Agent to be the Chairman of the Board, President, any Vice-President, Treasurer, Corporate Secretary or any Assistant Secretary of the Corporation, and to apply to such individuals for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such individual;
- (h) the Rights Agent and any shareholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Common Shares, Rights or other securities of the Corporation or become pecuniarily interested in any transaction in which the Corporation may be interested, or contract with or lend money to the Corporation or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Corporation or for any other legal entity; and
- (i) the Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Corporation resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

4.4 Change of Rights Agent

The Rights Agent may resign and be discharged from its duties under this Agreement upon 60 days' notice (or such lesser notice as is acceptable to the Corporation) in writing mailed to the Corporation and to each transfer agent of Common Shares by registered or certified mail. The Corporation may remove the Rights Agent upon 60

days' notice in writing, mailed to the Rights Agent and to each transfer agent of the Common Shares by registered or certified mail. If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Corporation will appoint a successor to the Rights Agent. If the Corporation fails to make such appointment within a period of 60 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent, then by prior written notice to the Corporation the resigning Rights Agent or the holder of any Rights (which holder shall, with such notice, submit such holder's Rights Certificate, if any, for inspection by the Corporation), may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Corporation or by such a court, shall be a corporation incorporated under the laws of Canada or a province thereof authorized to carry on the business of a trust company in the Province of Alberta. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Corporation will file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares and mail a notice thereof in writing to the holders of the Rights in accordance with Section 5.9. Failure to give any notice provided for in this Section 4.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of any successor Rights Agent, as the case may be.

ARTICLE 5 — MISCELLANEOUS

5.1 Redemption and Waiver

- (a) The Board of Directors acting in good faith may, until the occurrence of a Flip-in Event, upon prior written notice delivered to the Rights Agent, determine to waive the application of Section 3.1 to a particular Flip-in Event that would result from a Take-over Bid made by way of take-over bid circular to all holders of Voting Shares (which for greater certainty shall not include the circumstances described in Subsection 5.1(h)); provided that if the Board of Directors waives the application of Section 3.1 to a particular Flip-in Event pursuant to this Subsection 5.1(a), the Board of Directors shall be deemed to have waived the application of Section 3.1 to any other Flip-in Event occurring by reason of any Take-over Bid which is made by means of a take-over bid circular to all holders of Voting Shares prior to the expiry of any Take-over Bid (as the same may be extended from time to time) in respect of which a waiver is, or is deemed to have been, granted under this Subsection 5.1(a).
- (b) Subject to the prior consent of the holders of the Voting Shares or the Rights obtained as set forth in Subsection 5.4(b) or (c), the Board of Directors of the Corporation acting in good faith may, at its option, at any time prior to the provisions of Section 3.1 becoming applicable as a result of the occurrence of a Flip-in Event, elect to redeem all but not less than all of the outstanding Rights at a redemption price of \$0.001 per Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 if an event of the type analogous to any of the events described in Section 2.3 shall have occurred (such redemption price being herein referred to as the "Redemption Price").
- (c) Where a Person acquires pursuant to a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition under Subsection 5.1(a) outstanding Voting Shares, other than Voting Shares Beneficially Owned at the date of the Permitted Bid, the Competing Permitted Bid or the Exempt Acquisition under Subsection 5.1(a) by such Person, then the Board of Directors of the Corporation shall immediately upon the consummation of such acquisition without further formality and without any approval under Subsection 5.4(b) or (c) be deemed to have elected to redeem the Rights at the Redemption Price.
- (d) Where a Take-over Bid that is not a Permitted Bid Acquisition is withdrawn or otherwise terminated after the Separation Time has occurred and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price.
- (e) If the Board of Directors is deemed under Subsection 5.1(c) to have elected, or elects under either of Subsection 5.1(b) or (d), to redeem the Rights, the right to exercise the Rights will thereupon, without further action and without notice, terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price.

- (f) Within 10 days after the Board of Directors is deemed under Subsection 5.1(c) to have elected, or elects under Subsection 5.1(b) or (d), to redeem the Rights, the Corporation shall give notice of redemption to the holders of the then outstanding Rights by mailing such notice to each such holder at his last address as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the transfer agent for the Voting Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.
- (g) Upon the Rights being redeemed pursuant to Subsection 5.1(d), all the provisions of this Agreement shall continue to apply as if the Separation Time had not occurred and Rights Certificates representing the number of Rights held by each holder of record of Common Shares as of the Separation Time had not been mailed to each such holder and for all purposes of this Agreement the Separation Time shall be deemed not to have occurred.
- (h) The Board of Directors may waive the application of Section 3.1 in respect of the occurrence of any Flip-in Event if the Board of Directors has determined within eight Trading Days following a Stock Acquisition Date that a Person became an Acquiring Person by inadvertence and without any intention to become, or knowledge that it would become, an Acquiring Person under this Agreement and, in the event that such a waiver is granted by the Board of Directors, such Stock Acquisition Date shall be deemed not to have occurred. Any such waiver pursuant to this Subsection 5.1(h) must be on the condition that such Person, within 14 days after the foregoing determination by the Board of Directors or such earlier or later date as the Board of Directors may determine (the "Disposition Date"), has reduced its Beneficial Ownership of Voting Shares such that the Person is no longer an Acquiring Person. If the Person remains an Acquiring Person at the close of business on the Disposition Date, the Disposition Date shall be deemed to be the date of occurrence of a further Stock Acquisition Date and Section 3.1 shall apply thereto.

5.2 Expiration

No Person shall have any rights whatsoever pursuant to this Agreement or in respect of any Right after the Expiration Time, except the Rights Agent as specified in Subsection 4.1(a) of this Agreement.

5.3 Issuance of New Rights Certificates

Notwithstanding any of the provisions of this Agreement or the Rights to the contrary, the Corporation may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board of Directors to reflect any adjustment or change in the number or kind or class of securities purchasable upon exercise of Rights made in accordance with the provisions of this Agreement.

5.4 Supplements and Amendments

- (a) The Corporation may make amendments to this Agreement to correct any clerical or typographical error or which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation or regulations thereunder. The Corporation may, prior to the date of the shareholders' meeting referred to in Section 5.15, supplement or amend this Agreement without the approval of any holders of Rights or Voting Shares in order to make any changes which the Board of Directors acting in good faith may deem necessary or desirable. Notwithstanding anything in this Section 5.4 to the contrary, no such supplement or amendment shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent to such supplement or amendment.
- (b) Subject to the Section 5.4(a), the Corporation may, with the prior consent of the holders of Voting Shares obtained as set forth below, at any time prior to the Separation Time, amend, vary or rescind any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally). Such consent shall be deemed to have been given if the action requiring such approval is authorized by the affirmative vote of a majority of the votes cast by Independent Shareholders present or represented at and entitled to be voted at a meeting of the holders of Voting Shares duly called and held in compliance with applicable laws and the articles and by-laws of the Corporation.

- (c) The Corporation may, with the prior consent of the holders of Rights, at any time on or after the Stock Acquisition Date, amend, vary or delete any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally), provided that no such amendment, variation or deletion shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent thereto. Such consent shall be deemed to have been given if such amendment, variation or deletion is authorized by the affirmative votes of the holders of Rights present or represented at and entitled to be voted at a meeting of the holders and representing 50% plus one of the votes cast in respect thereof.
- (d) Any approval of the holders of Rights shall be deemed to have been given if the action requiring such approval is authorized by the affirmative votes of the holders of Rights present or represented at and entitled to be voted at a meeting of the holders of Rights and representing a majority of the votes cast in respect thereof. For the purposes hereof, each outstanding Right (other than Rights which are void pursuant to the provisions hereof) shall be entitled to one vote, and the procedures for the calling, holding and conduct of the meeting shall be those, as nearly as may be, which are provided in the Corporation's by-laws and the *Canada Business Corporations Act* with respect to meetings of shareholders of the Corporation.
- (e) Any amendments made by the Corporation to this Agreement pursuant to Subsection 5.4(a) which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation or regulation thereunder shall:
 - (i) if made before the Separation Time, be submitted to the shareholders of the Corporation at the next meeting of shareholders and the shareholders may, by the majority referred to in Subsection 5.4(b), confirm or reject such amendment;
 - (ii) if made after the Separation Time, be submitted to the holders of Rights at a meeting to be called for on a date not later than immediately following the next meeting of shareholders of the Corporation and the holders of Rights may, by resolution passed by the majority referred to in Subsection 5.4(d), confirm or reject such amendment.

Any such amendment shall be effective from the date of the resolution of the Board of Directors adopting such amendment, until it is confirmed or rejected or until it ceases to be effective (as described in the next sentence) and, where such amendment is confirmed, it continues in effect in the form so confirmed. If such amendment is rejected by the shareholders or the holders of Rights or is not submitted to the shareholders or holders of Rights as required, then such amendment shall cease to be effective from and after the termination of the meeting at which it was rejected or to which it should have been but was not submitted or from and after the date of the meeting of holders of Rights that should have been but was not held, and no subsequent resolution of the Board of Directors to amend this Agreement to substantially the same effect shall be effective until confirmed by the shareholders or holders of Rights as the case may be.

5.5 Fractional Rights and Fractional Shares

- (a) The Corporation shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. After the Separation Time, in lieu of issuing fractional Rights, the Corporation shall pay to the holders of record of the Rights Certificates (provided the Rights represented by such Rights Certificates are not void pursuant to the provisions of Subsection 3.1(b), at the time such fractional Rights would otherwise be issuable), an amount in cash equal to the fraction of the Market Price of one whole Right that the fraction of a Right that would otherwise be issuable is of one whole Right.
- (b) The Corporation shall not be required to issue fractions of Common Shares upon exercise of Rights or to distribute certificates which evidence fractional Common Shares. In lieu of issuing fractional Common Shares, the Corporation shall pay to the registered holders of Rights Certificates, at the time such Rights are exercised as herein provided, an amount in cash equal to the fraction of the Market Price of one Common Share that the fraction of a Common Share that would otherwise be issuable upon the exercise of such Right is of one whole Common Share at the date of such exercise.

5.6 Rights of Action

Subject to the terms of this Agreement, all rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights. Any holder of Rights, without the consent of the Rights Agent or of the holder of any other Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights, enforce, and may institute and maintain any suit, action or proceeding against the Corporation to enforce such holder's right to exercise such holder's Rights, or Rights to which such holder is entitled, in the manner provided in such holder's Rights and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

5.7 Regulatory Approvals

Any obligation of the Corporation or action or event contemplated by this Agreement shall be subject to the receipt of any requisite approval or consent from any governmental or regulatory authority, and without limiting the generality of the foregoing, necessary approvals of The Toronto Stock Exchange and other exchanges shall be obtained, such as to the issuance of Common Shares upon the exercise of Rights under Subsection 2.2(d).

5.8 Declaration as to Non-Canadian Holders

If in the opinion of the Board of Directors (who may rely upon the advice of counsel) any action or event contemplated by this Agreement would require compliance by the Corporation with the securities laws or comparable legislation of a jurisdiction outside Canada, the Board of Directors acting in good faith shall take such actions as it may deem appropriate to ensure such compliance. In no event shall the Corporation or the Rights Agent be required to issue or deliver Rights or securities issuable on exercise of Rights to persons who are citizens, residents or nationals of any jurisdiction other than Canada or the United States, in which such issue or delivery would be unlawful without registration of the relevant Persons or securities for such purposes.

5.9 Notices

- (a) Notices or demands authorized or required by this Agreement to be given or made by the Rights Agent or by the holder of any Rights to or on the Corporation shall be sufficiently given or made if delivered, sent by registered or certified mail, postage prepaid (until another address is filed in writing with the Rights Agent), or sent by facsimile or other form of recorded electronic communication, charges prepaid and confirmed in writing, as follows:

IPL Energy Inc.
Bow Valley Square 2
3100, 205 — 5th Avenue S.W.
P.O. Box 149
Calgary, Alberta
T2P 2V7

Attention: Corporate Secretary
Telecopy No.: (403) 231-3920

- (b) Notices or demands authorized or required by this Agreement to be given or made by the Corporation or by the holder of any Rights to or on the Rights Agent shall be sufficiently given or made if delivered, sent by registered or certified mail, postage prepaid (until another address is filed in writing with the

Corporation), or sent by facsimile or other form of recorded electronic communication, charges prepaid and confirmed in writing, as follows:

The R-M Trust Company
600 Dome Tower
Toronto-Dominion Square
333 — Seventh Avenue S.W.
Calgary, Alberta
T2P 2Z3

Attention: Assistant Vice-President, Corporate Trust
Telecopy No.: (403) 264-2100

- (c) Notices or demands authorized or required by this Agreement to be given or made by the Corporation or the Rights Agent to or on the holder of any Rights shall be sufficiently given or made if delivered or sent by first class mail, postage prepaid, addressed to such holder at the address of such holder as it appears upon the register of the Rights Agent or, prior to the Separation Time, on the register of the Corporation for its Common Shares. Any notice which is mailed or sent in the manner herein provided shall be deemed given, whether or not the holder receives the notice.
- (d) Any notice given or made in accordance with this Section 5.9 shall be deemed to have been given and to have been received on the day of delivery, if so delivered, on the third Business Day (excluding each day during which there exists any general interruption of postal service due to strike, lockout or other cause) following the mailing thereof, if so mailed, and on the day of telegraphing, telecopying or sending of the same by other means of recorded electronic communication (provided such sending is during the normal business hours of the addressee on a Business Day and if not, on the first Business Day thereafter). Each of the Corporation and the Rights Agent may from time to time change its address for notice by notice to the other given in the manner aforesaid.

5.10 Costs of Enforcement

The Corporation agrees that if the Corporation fails to fulfil any of its obligations pursuant to this Agreement, then the Corporation will reimburse the holder of any Rights for the costs and expenses (including legal fees) incurred by such holder to enforce his rights pursuant to any Rights or this Agreement.

5.11 Successors

All the covenants and provisions of this Agreement by or for the benefit of the Corporation or the Rights Agent shall bind and enure to the benefit of their respective successors and assigns hereunder.

5.12 Benefits of this Agreement

Nothing in this Agreement shall be construed to give to any Person other than the Corporation, the Rights Agent and the holders of the Rights any legal or equitable right, remedy or claim under this Agreement; further, this Agreement shall be for the sole and exclusive benefit of the Corporation, the Rights Agent and the holders of the Rights.

5.13 Governing Law

This Agreement and each Right issued hereunder shall be deemed to be a contract made under the laws of the Province of Alberta and for all purposes shall be governed by and construed in accordance with the laws of such Province applicable to contracts to be made and performed entirely within such Province.

5.14 Severability

If any term or provision hereof or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such term or provision shall be ineffective only as to such jurisdiction and to the extent of such invalidity or unenforceability in such jurisdiction without invalidating or rendering unenforceable or ineffective the remaining terms and provisions hereof in such jurisdiction or the application of such term or provision in any other jurisdiction or to circumstances other than those as to which it is specifically held invalid or unenforceable.

5.15 Effective Date

This Agreement is effective and in full force and effect in accordance with its terms from and after the Effective Date. At the first annual meeting of holders of Voting Shares of the Corporation following the Effective Date, the Corporation shall request confirmation of this Agreement by the holders of its Voting Shares. If this Agreement is not confirmed by a majority of the votes cast by holders of Voting Shares who vote in respect of confirmation of this Agreement at such meeting, then this Agreement and all outstanding Rights shall terminate and be void and of no further force and effect on and from the close of business on the date of termination of such meeting.

5.16 Reconfirmation

Notwithstanding the confirmation of this Agreement pursuant to Section 5.15, this Agreement must be reconfirmed by a resolution passed by a majority of greater than 50% of the votes cast by all holders of Voting Shares who vote in respect of such reconfirmation at every third annual meeting following the 1996 annual meeting. If the Agreement is not so reconfirmed or is not presented for reconfirmation at such annual meeting, the Agreement and all outstanding Rights shall terminate and be void and of no further force and effect on and from the date of termination of the annual meeting; provided that termination shall not occur if a Flip-in Event has occurred (other than a Flip-in Event which has been waived pursuant to Subsection 5.1(a) or (h) hereof), prior to the date upon which this Agreement would otherwise terminate pursuant to this Section 5.16.

5.17 Determinations and Actions by the Board of Directors

The Board of Directors, upon the advice of outside counsel, shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board of Directors or the Corporation as may be necessary or advisable in the administration of this Agreement. All such actions, calculations and determinations (including all omissions with respect to the foregoing) which are done or made by the Board of Directors, in good faith, shall not subject the Board of Directors or any director of the Corporation to any liability to the holders of the Rights.

5.18 Time of the Essence

Time shall be of the essence in this Agreement.

5.19 Execution in Counterparts

This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

IPL ENERGY INC.

By: BRIAN F. MAC NEILL
President

By: MEL F. BELICH
Corporate Secretary (c/s)

THE R-M TRUST COMPANY

By: /s/

By: /s/
(c/s)

ATTACHMENT 1
IPL ENERGY INC.
SHAREHOLDER RIGHTS PLAN AGREEMENT
[Form of Rights Certificate]

Certificate No. _____

Rights _____

THE RIGHTS ARE SUBJECT TO TERMINATION ON THE TERMS SET FORTH IN THE SHAREHOLDER RIGHTS PLAN AGREEMENT. UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SUBSECTION 3.1(b) OF THE SHAREHOLDER RIGHTS PLAN AGREEMENT), RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR CERTAIN RELATED PARTIES, OR TRANSFEREES OF AN ACQUIRING PERSON OR CERTAIN RELATED PARTIES, MAY BECOME VOID.

Rights Certificate

This certifies that _____, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Shareholder Rights Plan Agreement, dated as of November 9, 1995, as the same may be amended or supplemented from time to time (the "Shareholder Rights Agreement"), between IPL Energy Inc., a corporation duly incorporated under the Canada Business Corporations Act (the "Corporation") and The R-M Trust Company, a trust company incorporated under the laws of Canada (the "Rights Agent") (which term shall include any successor Rights Agent under the Shareholder Rights Agreement), to purchase from the Corporation at any time after the Separation Time (as such term is defined in the Shareholder Rights Agreement) and prior to the Expiration Time (as such term is defined in the Shareholder Rights Agreement), one fully paid common share of the Corporation (a "Common Share") at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate with the Form of Election to Exercise (in the form provided hereinafter) duly executed and submitted to the Rights Agent at its principal office in any of the cities of Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal or to the principal office of The Bank of Montreal Trust Company in New York City, New York. The Exercise Price shall initially be \$120 (Cdn.) per Right and shall be subject to adjustment in certain events as provided in the Shareholder Rights Agreement.

This Rights Certificate is subject to all of the terms and provisions of the Shareholder Rights Agreement, which terms and provisions are incorporated herein by reference and made a part hereof and to which Shareholder Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Rights Agent, the Corporation and the holders of the Rights Certificates. Copies of the Shareholder Rights Agreement are on file at the registered office of the Corporation.

This Rights Certificate, with or without other Rights Certificates, upon surrender at any of the offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing an aggregate number of Rights equal to the aggregate number of Rights evidenced by the Rights Certificate or Rights Certificates surrendered. If this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Common Shares or of any other securities which may at any time be issuable upon the exercise hereof, nor shall anything contained in the Shareholder Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the Rights of a shareholder of the Corporation or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Shareholder Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised as provided in the Shareholder Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Corporation and its corporate seal.

Date: _____

IPL ENERGY INC.

By: _____
President

By: _____
Corporate Secretary

Countersigned:

THE R-M TRUST COMPANY

By: _____
Authorized Signature

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto _____

(Please print name and address of transferee.)

the Rights represented by this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, as attorney, to transfer the within Rights on the books of the Corporation, with full power of substitution.

Dated: _____

Signature

Signature Guaranteed:

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

Signature must be guaranteed by a member firm of a recognized stock exchange in Canada, or a commercial bank or trust company having an office or correspondent in Canada.

.....

CERTIFICATE

(To be completed if true.)

The undersigned party transferring Rights hereunder, hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Agreement.

Signature

.....

(To be attached to each Rights Certificate.)

FORM OF ELECTION TO EXERCISE

(To be exercised by the registered holder if such holder desires to exercise the Rights Certificate.)

TO: _____

The undersigned hereby irrevocably elects to exercise _____ whole Rights represented by the attached Rights Certificate to purchase the Common Shares or other securities, if applicable, issuable upon the exercise of such Rights and requests that certificates for such securities be issued in the name of:

(Name)

(Address)

(City and Province)

Social Insurance Number or other taxpayer identification number.

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

(Name)

(Address)

(City and Province)

Social Insurance Number or other taxpayer identification number.

Dated: _____

Signature

Signature Guaranteed:

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

Signature must be guaranteed by a member firm of a recognized stock exchange in Canada, or a commercial bank or trust company having an office or correspondent in Canada.

.....

CERTIFICATE

(To be completed if true.)

The undersigned party transferring Rights hereunder, hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Agreement.

Signature

.....
(To be attached to each Rights Certificate.)

NOTICE

In the event the certification set forth above in the Forms of Assignment and Election is not completed, the Corporation will deem the Beneficial Owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof. No Rights Certificates shall be issued in exchange for a Rights Certificate owned or deemed to have been owned by an Acquiring Person or an Affiliate or Associate thereof, or by a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof.

APPENDIX "C"

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

<u>TSE/ME Corporate Governance Committee Guideline</u>	<u>Does IPL Energy Align?</u>	<u>Comments</u>
1. Board should explicitly assume responsibility for stewardship of the Corporation, and specifically for:		
a. adoption of a strategic planning process	Yes	a.1 Three Board meetings per year, including a working session with management, are set aside for substantial strategic planning sessions. a.2 The Board reviews, approves and provides guidance in respect of the strategic planning process. The Board also reviews the progress of strategic planning as it occurs and approves the completed plan.
b. identification of principal risks, and implementation of risk-managing systems	Yes	b.1 The Board and Audit Committee specifically identify principal risks of the Corporation on an annual basis and monitor the risk management system. b.2 The Corporation has established Committees to implement and monitor systems put in place to address principal risks. As an example, the Safety and Environment Committee played a role in establishing an environmental risk management system, and monitors its operation. The Audit Committee works with internal and external auditors to identify other risks.
c. succession planning and monitoring senior management	Yes	c.1 The Compensation Committee reviews corporate management and reports to the Board on organizational structure and succession planning matters at least annually. The succession planning review encompasses an assessment of potential candidates for succession to senior management and the specific identification of potential candidates to fill any vacancy in a senior position. c.2 One objective of the President & Chief Executive Officer ("CEO"), as mandated by the Board, is to ensure that succession planning is in place. The Compensation Committee reviews and monitors executive development programs. IPL Energy uses the system to monitor the performance of senior management.
d. communications policy	Yes	d.1 The Board has established structures to ensure effective communication between the Corporation, its stakeholders and the public. These structures include communications by the Corporate Secretary's, Investor Relations, Financial Services and Government & Public Affairs Departments, as well as the Safety and Environment Committee of the Board.
e. integrity of internal control and management information systems	Yes	e.1 The Board satisfies itself that internal control systems and management information systems are in place and operating effectively. Each of the following Committees is responsible to review and advise the Board on systems and effectiveness in the noted areas: — Compensation: employment, succession and remuneration. — Safety and Environment: environmental, health and safety compliance. — Audit: accounting, internal control and management information systems, compliance of financial reporting with accounting principles and overview of financial plans. — Governance: membership and duties of the Board and Board Committees and overview of the effectiveness of management's interaction with and responsiveness to the Board.
2. Majority of directors should be "unrelated" (free from conflicting interest)	Yes	H.G. MacNeill (non-executive Chairman of the Board) and B.F. MacNeill (President & CEO) are the only Board members who are related to the Corporation. Their appointments are pursuant to the By-laws of the Corporation.

<u>TSE/ME Corporate Governance Committee Guideline</u>	<u>Does IPL Energy Align?</u>	<u>Comments</u>
3. Disclose for each director whether he or she is related, and how that conclusion was reached	Yes	H.G. MacNeill Related — is Chairman of the Board of the Corporation B.F. MacNeill Related — is President & CEO of the Corporation D.E. Powell Unrelated — was a director and officer of former subsidiaries of IPL Energy Inc. For the remainder of the directors, none of them or their associates have: — worked for the Corporation — material contracts with the Corporation — received remuneration from the Corporation in excess of directors' fees. J.L. Braithwaite Unrelated W.A. Dimma Unrelated E.S. Evans Unrelated F.W. Fitzpatrick Unrelated R.L. George Unrelated L.D. Hyndman Unrelated R.W. Martin Unrelated E.H. Orser Unrelated D.J. Taylor Unrelated
4. a. Appoint a Committee responsible for appointment/assessment of directors	Yes	The Governance Committee has the mandate to: — recommend candidates for election as a director. — annually review credentials of nominees for re-election to the Board. — recommend candidates to fill vacancies on the Board. — ensure qualifications of directors required by the Corporation or the Board are maintained. — assess the performance of directors and of the Board as a whole.
b. The Board should be composed exclusively of non-management directors, the majority of whom are unrelated	Yes	— see response to item 3, above.
5. Implement a process for assessing the effectiveness of the Board, its Committees and individual directors	Yes	The Governance Committee has established a process to: — monitor the quality of the relationship between and among the Board, its Committees and management and recommend changes. — assess the performance of directors. — assess the performance of the Board as a whole. — review policies and procedures in order to be assured that matters are satisfactorily delegated to Committees and/or management. — recommend appointment of directors to the various Board Committees. — set terms of office, maximum age limits and recommend minimum voluntary levels of share holdings in the Corporation for directors. — review and make recommendations regarding the powers and responsibilities of the Board to be delegated including the following: - assess the Committee structure (including a determination of which committees of directors are appropriate), assess Committee membership numbers, review mandates of Committees with Committees prior to submission to the Board, make recommendations to the Board on these and other Committee matters, and nominate for consideration of the Board, persons to be members of Committees.
6. Provide orientation and education programs for new directors	Yes	The Corporate Secretary maintains a "Director's Manual" for new and existing directors, which is updated when appropriate and which informs Directors of appropriate Corporate operations, results, terms of reference for the Board, Board Committees and Board officers, as well as public disclosure filings. New Board members receive a directors' orientation and directors are provided with ongoing Corporate education, including site tours.

TSE/ME Corporate Governance Committee Guideline	Does IPL Energy Align?	Comments
7. Consider reducing size of Board, with a view to improving effectiveness	Yes (Nominees for election as Directors in 1995: 10; in 1996: 10)	Presentations and materials are provided to the Board on aspects of Corporate activities and directors' duties and responsibilities. Board and Committee meetings are held at locations of major subsidiary offices and plant sites from time to time, to give the directors additional insight into the Corporation's businesses. The Board must have a sufficient number of directors to carry out its duties efficiently, while presenting a diversity of views and experience. The Corporation has a number of Committees. These requirements define the current number of directors. The Board reviews the contributions of the directors, and considers whether the current size of the Board promotes effectiveness and efficiency. The Board believes it does.
8. Review compensation of directors in light of risks and responsibilities	Yes	The Governance Committee is mandated to review and recommend to the Board for approval the remuneration of directors. The Committee considers time commitments, comparative fees, responsibilities and risks, and utilizes an external independent consultant to make recommendations in respect of directors' remuneration.
9. a. Committees should be generally composed of outside directors; and	Yes	Corporation Committees are composed solely of outside directors.
b. Majority of Committee members should be unrelated	Yes	Corporation Committees are composed solely of non-management unrelated directors, other than the Compensation and Governance Committees which include H.G. MacNeill as a member.
10. Appoint a Committee responsible for approach to corporate governance issues	Yes	The Governance Committee is mandated to be responsible for and make recommendations to the Board concerning the governance of the Corporation. Included in the Governance Committee mandate is the responsibility to: — review the mandates of the various Board Committees and recommend changes. — recommend nomination of directors to Board Committees. — as an objective, to nominate a balanced mix of Board members with the experience/expertise to provide value to the Corporation and its shareholders in respect of its existing businesses and strategic plans. The Governance Committee guidelines include criteria to add directors who possess relevant and/or senior executive expertise or other qualifications, and with the intent to achieve an appropriate mix of men, women and minority representation on the Board. The Governance Committee utilizes these guidelines to achieve the strategic objectives of ensuring that the Board of Directors is composed of individuals who will best serve the interests of the Corporation and add value for shareholders. — perform functions identified elsewhere in this appendix. — develop the Corporation's approach to governance issues, set corporate governance guidelines for the Board, and assume responsibility for the Corporation's response to those guidelines. — define and recommend to the Board, the role of the Board and the general division of duties between the Board and the CEO and, in conjunction with the Compensation Committee, define the CEO's responsibilities. — recommend the size of the Board and the size of its Committees. — set guidelines for determination of conflicts of interest and review situations where the guidelines may have been breached.

<u>TSE/ME Corporate Governance Committee Guideline</u>	<u>Does IPL Energy Align?</u>	<u>Comments</u>
11. a. Define limits to management's responsibilities by developing mandates for: (i) the Board	Yes	The Board of Directors has plenary power to manage and supervise the management of the business and affairs of the Corporation. Descriptions of Board responsibilities can be found in the By-laws of the Corporation, in the mandates of the Committees of the Board, and more generally in the Canada Business Corporations Act. The Governance Committee has developed a mandate statement for the Board which has been adopted by the Board.
(ii) the CEO	Yes	The Governance Committee defines and recommends to the Board, the role of the Board and the general division of duties as between the Board and the CEO. The general authority guidelines of the Corporation and the Corporation's long range plan objectives constitute a mandate for the CEO. These objectives include the general mandate to maximize shareholder value. In addition, the Board has adopted terms of reference and a review process for the CEO.
b. Board should approve CEO's corporate objectives	Yes	The Governance Committee and the Compensation Committee approve the CEO's and management's objectives on an annual basis. These objectives are reviewed by the full Board. Management's objectives as set forth in the long range plan are approved by the full Board.
12. Establish procedures to enable the Board to function independently of management	Yes	The Board meets independently of management whenever appropriate. The Governance Committee ensures that the Board functions independently of management. Members of the Governance Committee are independent (non-management) unrelated directors.
13. a. Establish an Audit Committee with a specifically defined mandate	Yes	The Corporation's Audit Committee is mandated, among other things, to: — monitor audit functions and the preparation of financial statements. — meet with the outside auditors independently of management. — approve press releases on financial results. — review all prospectuses, material change reports and the annual information form. — oversee the financial statements of the Corporation's pension plans.
b. all members of the Audit Committee should be non-management directors	Yes	The Audit Committee members are independent (non-management) unrelated directors.
14. Implement a system to enable individual directors to engage outside advisors, at the Corporation's expense.	Yes	Individual directors can engage outside advisers at the expense of the Corporation with the authorization of the Board or on the recommendation of the Governance Committee.

THE R-M TRUST COMPANY
PRINCIPAL CORPORATE TRUST OFFICES
FOR DEPOSIT OF FORM OF PROXY

<u>Branch</u>	<u>Mailing Address</u>	<u>Courier Address</u>
Calgary, Alberta Telephone: (403) 232-2401	P.O. Box 2517 Calgary, Alberta T2P 4P4	600 The Dome Tower 333 - 7th Avenue, S.W. Calgary, Alberta T2P 2Z1
Halifax, Nova Scotia Telephone: (902) 420-3802	P.O. Box 2082, Station "C" Halifax, Nova Scotia B3J 3B7	1660 Hollis Street Centennial Building Main Floor Halifax, Nova Scotia B3J 1V7
Montreal, Quebec Telephone: (519) 874-3606	P.O. Box 700 Station "B" Montreal, Quebec H3B 3K3	2001 University Street 16th Floor Montreal, Quebec H3A 2A6
Regina, Saskatchewan Telephone: (306) 777-0255	P.O. Box 4124 Regina, Saskatchewan S4P 3W5	1080 - 2002 Victoria Avenue Regina, Saskatchewan S4P 0R7
Toronto, Ontario Telephone: (416) 813-4500	393 University Avenue 5th Floor Toronto, Ontario M5G 2M7	393 University Avenue 5th Floor Toronto, Ontario M5G 2M7
Vancouver, B.C. Telephone: (604) 891-3002	P.O. Box 1900 Vancouver, B.C. V6E 3K9	1177 West Hastings Street Mall Level Vancouver, B.C. V6E 2K3
Winnipeg, Manitoba Telephone: (204) 962-7078	330 St. Mary Avenue Suite 201 Winnipeg, Manitoba R3C 3Z5	330 St. Mary Avenue Suite 201 Winnipeg, Manitoba R3C 3Z5

FOR DEPOSIT OF FORM OF PROXY
IN THE UNITED STATES

Please deposit at the offices of the Co-Transfer Agent at:

Chemical Mellon Shareholder Services LLC
13th Floor
120 Broadway
New York, New York
U.S.A. 10271

Attention: Proxy Department
Telephone: (212) 946-7144 or (800) 674-4273